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CONTENTS FOR NOVEMBER

THE LEAGUE'S BUSINESS ..... *Howard P. Jones* 604
EDITORIAL COMMENT ..... *H. P. J.* 605
THE EFFECT OF TAX RATE LIMITS ON MUNICIPAL CREDIT ..... *Frederick L. Bird* 607
THE BY-PRODUCTS OF TAX LIMITATION IN WEST VIRGINIA ..... *John F. Sly* 611
OHIO LEARNS A SECOND LESSON ..... *S. J. Barrick* 616
PROBABLE EFFECTS OF TAX LIMITATION IN ILLINOIS *Simeon E. Leland* 621
A CLOUD ON THE NEW YORK STATE TAX HORIZON .... *Albert H. Hall* 626
LEGISLATIVE PROPOSALS LAST YEAR AND THIS ..... *Jens P. Jensen* 631
ESTABLISHMENT OF SATISFACTORY AND PERMANENT STATE WELFARE DEPARTMENTS ..... *Frank Bane* 635
DIFFICULTIES IN DEVELOPING STATE AND LOCAL CAREER SERVICES ..... *Luther Gulick* 639
NEWS OF THE MONTH 643
RECENT BOOKS REVIEWED ..... *Geneva Seybold* 656

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THE LEAGUE'S BUSINESS

The League's Forty-first Annual Conference.—Governor Theodore Francis Greene of Rhode Island and Mayor James E. Dunne of Providence will greet those in attendance at the League's annual conference at its first session on Monday morning, November 25. Sessions will continue throughout that day and on Tuesday, the 26th, at the Hotel Biltmore, Providence, R. I. We are looking forward to a splendid gathering and to passing the attendance record made at the conference last year when more than six hundred civic leaders, public officials, and students of government from all parts of the country met at Pittsburgh.

At Monday's luncheon meeting Former Governor John G. Winant of New Hampshire, now Chairman of the Social Security Board, and Walter Fitzpatrick, city treasurer of Providence, will speak.

The afternoon of the 25th and the morning of the 26th will be devoted to group sessions on the following topics: Reorganizing City Government to Increase Efficiency, Unemployment Relief Administration, New Sources of Revenue, County Government, Public Debt, The Problem of Civic Education, Tax Limitation, Libraries, and Recreation. Included among the many prominent persons who have agreed to participate in these group sessions will be Dr. Gotthilf Bronisch of Germany; Frank Bane, recently appointed executive director of the Social Security Board; Henry Long, Tax Commissioner of Massachusetts; Dr. Thomas H. Reed of the League's Municipal Consultant Service; John S. Linen of the Chase National Bank of New York; Lent D. Upson, of the Federal Emergency Relief Administration and Director of the Detroit Bureau of Governmental Research; Former State Senator Seabury C. Mastick of New York; and John W. Studebaker, United States Commissioner of Education.

The Proportional Representation League's annual meeting, with Hon. Samuel Seabury of New York and Dr. A. R. Hatton of Northwestern University as the principal speakers, will be held in connection with a dinner the evening of the 25th.

Tuesday's luncheon will be devoted to problems of relief, with Corrington Gill of the Federal Emergency Relief Administration as speaker. The afternoon session on the same day will be given over to Better Government Personnel. Dr. Leonard D. White, United States Civil Service Commissioner, and Dr. Luther Gulick, Director of the Institute of Public Administration, will be among the speakers.

The annual banquet of the League will take place on Tuesday evening. The League's president, Dr. Harold W. Dodds, president of Princeton University, will preside. Other speakers will be announced shortly.

The National Association of Civic Secretaries, which will participate in the Conference on Government, is planning to hold its annual meeting on Sunday, November 24—the day previous to the League's sessions—at the Biltmore in Providence. Meetings will begin at ten A. M. and continue throughout the day. Breakfast meetings will be held Monday and Tuesday at eight A. M. Among those listed as speakers are: George H. Hallett, Jr., Miss Mary H. Ingham, H. Eliot Kaplan, William P. Lovett, R. J. Saunders, Allen H. Seed, Jr., and Richard Watrous. There will also be discussion on municipal finance, how to use civic agencies, and financing your own organization, together with reports from the field.

* * *

Nomination of Officers for 1936.—The Committee on Nominations has now issued its report on League officers for 1936. The following nominations have been submitted: *President,* Harold W. Dodds; *First Vice-President,* Margaret M. Wells; *Second Vice-President,* C. A. Dykstra; *Treasurer,* Carl H. Pforzheimer; *Honorary Secretary,* Clinton Rogers Woodruff; *Honorary Vice-Presidents,* Charles A. Beard, H. L. Brittain, Henry Bruere, Harry F. Byrd, Harry Woodburn Chase, Frederic A. Delano, John N. Edy, Samuel S. Fels, Mayo Fesler, Russell Forbes, A. R. Hatton, John R. Haynes, Frank O. Lowden, Charles E. Merriam, W. B. Munro, Frank L. Polk, Thomas H. Reed, Chester H. Rowell, Murray Seasongood, Miss Belle Sherwin, Mrs. F. Louis Slade, and A. Leo Weil; *Council* (three-year term), Harold S. Buttenheim, Mrs. Siegel W. Judd, Morris B. Lambie, William P. Lovett, Mrs. Virgil Loeb, Seabury C. Mastick, Henry L. Shattuck, Charles P. Taft, 2nd, Henry M. Waite, and Morton L. Wallerstein; *Council* (two-year term to fill vacancy), L. Arnold Frye.

Election of officers will take place at the business meeting of the League to be held November 26 in connection with its forty-first annual convention at Providence on November 25 and 26.

The nominating committee is composed of the following members: C. W. Tooke, *Chairman,* Louis Brownlow, Robert M. Goodrich, Carl H. Pforzheimer, and Lent D. Upson.

* * *

Radio Broadcasts.—This month finds the League's president, Dr. Harold W. Dodds, President of Princeton University, listed as a speaker in the YOU AND YOUR GOVERNMENT series on "Planning." Dr. Dodds is scheduled to discuss the question "Is Local Government Doomed?" His address will be broadcast November 26, at 7.45 P. M. eastern standard time (the regular

(Continued on Page 634)

Editorial Comment

November

NATIONAL MUNICIPAL REVIEW

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Turning to the Record

In this issue, the National Municipal Review presents a series of experience reports on the operation of tax limitation laws. There has been a great deal of talk about the desirability of such laws as well as a great deal of talk about their dangers. The best witness, however, is experience. And, in this case, the record of experience seems clear. Wherever tried, such laws have resulted in a practical breakdown of local government and a chaos in municipal finance.

When a city has to shut off its street lights at midnight, close three of its twelve needed fire stations, discontinue the collection of ashes and rubbish, and on top of that requires a large deficiency bond issue because it is not able to meet its current operating expenses, there is something wrong somewhere! The city referred to is Dayton, Ohio, which means to those informed that the government is ably and efficiently administered. The trouble is an arbitrary tax limitation that is forcing Dayton to curtail essential services and issue bonds for current operation.

Dayton is but one example, selected because where efficient administration prevails, less trouble with a tax limitation law should be anticipated. There are many others. In Birmingham, Ala., they are trying to run a city of 260,000 people on a little more than $700,000 a year, not counting debt service and education. This is about $3 per capita or less than a cent a day per person! Yet there are other cities which boast of spending but 25 cents a day per person.

In the past three years, we have weathered remarkably well a serious crisis in municipal finance. The experience of cities under tax limitation points to shoals ahead if this policy should be extended.

The National Municipal Review has tilted its lance sufficiently often at waste and inefficiency in local government so as to be able to escape the charge of defending or condoning any such conditions. If tax limitation were a means to the end of eliminating waste and producing efficiency in government, the Review would be found among the loudest criers in its favor. After careful scrutiny of experience, we find instead that tax limitation represents probably the most serious immediate menace with which local self-government and sound public finance is faced at the present time.

Political Parties and Nonpartisan Local Government

ONE of the questions most frequently raised in connection with the adoption of nonpartisan local government such as may be obtained through the city or county manager plan is as to its effect upon the national political parties.

"The national parties have their roots in local government," the argument runs. "If we put local government on a nonpartisan basis, we'll destroy our national parties."

The issue bobbed up again in connection with the adoption of the proposed county charter for Hamilton County, Ohio, and was answered with force by our own Murray Seasongood, ex-president of the National Municipal League, and former mayor of Cincinnati.

"It is vehemently stated," Seasongood said, "that in some way the adoption of this charter will be an injury to the party system. Nothing is further from the truth. This argument was made with the same vehemence against the adoption of the charter of the city of Cincinnati, on which the county charter is patterned.

"Yet the adoption of the city charter and the citizens' movement in the county have unquestionably been good for both political parties. They have required the nomination of better candidates than formerly and they also have aroused the interest of the electors and greatly increased the size of the vote at elections.

"It depends what you mean by the party system. What do local 'gangs' accomplish for national parties? Will our opponents assert that Tammany is good for the Democratic party, or that the Cox-Hynicka or Maschke or Walter Brown or Vare organizations or the Bill Thompson 'gangs' are good for the Republican party?

"It is absolutely contrary to universal experience that good should come from something which is entirely evil and that the best government can be obtained from those who are ignorant and criminal.

"If it be granted that the two-party system is essential to good government, there is a complete *non sequitur* in the assertion that movements by citizens to govern themselves locally, on a nonpartisan basis rather than to be plundered by a political machine, are incompatible with the existence of that system in state and national affairs."

And that, we are inclined to think, is that!

Forty-first Annual Conference on Government

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See page 604 for highlights of program. Full program and members' railroad certificates may be secured from the National Municipal League office.

The Effect of Tax Rate Limits on Municipal Credit

Arbitrary and inflexible limits are bound to undermine municipal credit. They have been ineffective in reducing the cost of government and are a dangerous and bungling means of correcting the tax system

FREDERICK L. BIRD *Director of Municipal Research, Dun & Bradstreet, Inc.*

IT IS somewhat ironical that a group which has found so much use—and misuse—for municipal credit in years not long past, should now be concentrating its efforts in the promotion of a policy which will vitiate such credit for future usefulness. This is exactly what the organized real estate interests are doing, however, through their pressure to secure universal adoption of fixed rate limits on general property taxation.

The general purposes of this movement are in many respects praiseworthy, particularly as they relate to inducing more economy in government and to encouraging diversification in the sources of municipal revenue. But the method used is haphazard, misdirected, and arbitrary, and there is more than a suspicion that it is merely a self-interested and short-sighted attempt to shift the tax load regardless of consequences. The tax rate limit scheme is an immediate threat to good government, and its adoption holds forth promise of increased rather than decreased cost of municipal administration.

One of the most serious consequences of tax rate limits is their detrimental effect on municipal credit. This in itself should be sufficient to insure abandonment of the movement, because good credit is indispensable to the functioning of local government. Most capital improvements must be financed entirely or partially by borrowing, the pay-as-you-go plan as an exclusive financing method being particularly impracticable in periods of subnormal community income. Municipalities also must have ability to borrow for emergencies, whether they arise from some catastrophe of nature or from some social calamity such as sudden and unprecedented unemployment. For most municipalities, moreover, the maintenance of credit is necessary for the routine temporary financing called for in the ordinary course of operations. Ability to borrow, and the rate at which loans can be secured, are contingent upon the risk involved to the lender, and such risk is manifestly increased when arbitrary limits are placed upon a municipality's ability to tap its resources for repayment.

The maintenance of strong municipal credit—ability to borrow and at the lowest going rate of interest—demands that outstanding debt be kept well within available resources to pay and that budgets be balanced. Tax rate limits are a menace to both of these fundamental credit essentials, a fact which can be readily demonstrated by a study of financial operations in places where they have been in force for any extensive period.

No better illustration may be found than that of the state of Alabama, where for many years a confusing heterogeny of municipal tax rate limits has been imbedded in the constitution. Somewhat more generous than the limits now being

generally proposed, but applying to service on practically all outstanding debt as well as to operating funds, they permitted fairly adequate financing of municipal requirements during a period of high and rising assessed valuations. Particularly was this true because Alabama had developed alternative sources of municipal revenue more extensively than other states. More recently, however, the combination of fixed tax rates and declining assessed valuations has rendered it impossible for leading cities in the state to meet their debt obligations satisfactorily. Mobile, its running expenses down to rock bottom, has nevertheless been in default on its debt since February 1932—not because of the lack of community resources for payment, but primarily because of a constitutional limitation on the levying of taxes. A somewhat similar, though less serious, condition prevails in Montgomery, where an 18 per cent decline in assessed valuations has resulted in the unavailability of adequate revenues to care satisfactorily for both current operations and debt service. Birmingham, a city with moderate debt and capable fiscal administration, but with assessed valuation reduced 30 per cent from the peak, has been forced each year for the last three years to refund a part of its maturing serial bonds, and is faced with a necessary continuance of this policy until such time as renewed real estate activity permits assessments to move well up the scale once more. Costs, in the meantime, in these Alabama cities, are being increased not only by interest on their deferred debt payments but by higher-than-normal interest rates on such money as they are able to borrow.

Their experience sheds light on one of the most serious weaknesses of tax rate limits as they affect municipal credit. A tax rate has no significance as a producer of revenue until it is applied to the taxable property valuation, and this valuation is peculiarly subject to the errant vagaries of both administration and circumstance. In many places its determination is unscientific and haphazard and it bears only a perfunctory and varying relation to actual value. In periods of depression there is always the frenzied demand for reduction, with little or no voluntary market to make true values ascertainable, and in periods of rising prosperity there are the pressing influences of inflated values, fictitious land prices, and the urge for increased valuations to stimulate real estate speculation. Any attempt to apply a fixed tax rate to so unstable a base discloses a naive obtuseness to the fixed charges for debt service and the many other fixed and semi-fixed charges which preponderate in a municipal budget. Thus in years of rising values service on increasing debt is assumed with seeming impunity, aided and abetted by realty interests expert in diverting public credit for private speculation purposes. Once valuations turn downward again fixed charges absorb an increasing proportion of available funds until their payment must be deferred to the meeting of bare necessities for keeping the municipality a going concern. No prudent investor is going to hazard his money upon a system which, at the advent of the next depression, will operate almost automatically to remove a city's resources from support of his investment.

OHIO'S EXPERIENCE

Ohio, now entering blithely upon another 1 per cent tax limitation experiment, has but to look to its previous adventure in this field to discover its practical futility. Municipal credit, it may be repeated, depends upon keeping debt well within available resources to pay and upon balanced budgets. From 1912 to 1922, the period in which Ohio previously was demonstrating tax saving under a 1 per cent limitation, taxes of Ohio counties and municipalities in-

creased 96 per cent, this despite the fact that huge sums were being deferred, through bond issues, for payment by taxpayers in later years. The effect of this bemuddled era on debt is likewise a damaging testimonial. Inadequate revenues forced municipalities to issue bonds to finance operating deficiencies, pay-as-you-go plans of capital financing were abandoned, and the many minor improvements and replacements normally and properly paid from tax revenues were financed by borrowing. Operating deficits became chronic, to summarize the excellent analysis by R. C. Atkinson. "Cincinnati ended every year from 1915 to 1921 with a heavy deficit, as did Cleveland and Columbus in all except one of these six years, and Toledo and Dayton in all but two." He estimates that in this period Ohio local governments issued more than $50,000,000 of bonds for financing current expenses. By the close of 1922 "deficiency bonds made up more than 14 per cent of municipal debt, exclusive of special assessment and public utility debt. In Cleveland they formed 19 per cent of the debt, in Dayton 24 per cent, and in a few smaller cities the ratio ran as high as 40 per cent."

Apparently oblivious of these inevitable consequences, Ohio initiated its second 1 per cent tax limitation experiment in the budgets of 1935—this time with the temporary—and inadequate—aid of a locally shared 3 per cent state sales tax, one-third of the proceeds of which is a levy on expenditures for food. Despite its only partial application to debt service there are already some extreme instances where a municipality's share of the rate does not even cover debt requirements, deficiency bond issues are coming to the fore again, and stimulus has been added to the forced refunding of bond maturities by many cities, counties, and school districts. The legislature, furthermore, is about to consider removal of the bars to wholesale refunding of debt.

OTHER STATES

In several other states pre-existing or newly enacted tax rate limits of an especially arbitrary nature are actually or potentially weakening influences on credit, particularly in Michigan, Washington, and West Virginia, and to some degree in Indiana, Oklahoma, and Texas. Not all local governments in these states are equally affected financially, or in some cases legally, but investors can hardly be expected to exercise a precise discrimination and the credit of some stands to suffer unjustifiably—but still with unfortunate consequences to ability to borrow advantageously.

Not all tax rate limits, it is fair to say, are seriously detrimental to credit. The very common type imposed on operating costs exclusive of debt requirements are of little concern so long as they do not force extensive borrowing to cover operating deficits or render it impossible for municipalities to satisfy their commercial creditors. Some limitations, such as that of $70 per capita for Minnesota cities or the 15 mills for operations and 10 mills additional for debt service of third-class Pennsylvania cities, are relatively innocuous through the margin allowed for all reasonable requirements. A certain degree of flexibility upon petition to the constituted authorities, as in the instance of Indiana, removes some of the disadvantage. The real menace to municipal credit lies in the form of rate limitation now being popularized—the 1 per cent, or 1½ per cent, inclusive limit on all general property taxes within a state, placed in the constitution if possible to render alteration difficult. Under such a limitation, concretely, the fixed rate must be apportioned fractionally among county, city, schools, and state (if the latter still requires this source of revenue) to cover

all tax-supported operating requirements and to include payments on future debt. Even the most cursory investigation discloses the absolute inadequacy of this rate applied to any reasonable valuation and evidence is accumulating rapidly of untenable conditions arising from such newly imposed restrictions.

The facts that service on existing debt is exempt from the limit, or that debt service is legally a first charge against revenues, carry no complete assurance of security to the creditor. When operating funds are inadequate there is always the temptation to divert sinking funds to the payment of serial bonds, as is now being done in notable cases in Ohio, or to employ debt funds, despite illegality, to keep the city running. The presence of cramping limitations prevents the utilization of reserves to offset tax delinquency and margins of safety are thus completely lost. The detrimental effect on administrative morale, moreover, of financial uncertainty, inability to balance budgets, and dependence on legislative handouts is bound to undermine the confidence which creditors have placed in strong administrations. Finally, it is absurd to place trust in any legal priority for payment of interest and principal, as no municipality can be expected to satisfy creditors at the expense of its operating existence and no group of citizens will continue to pay taxes if the services on which they depend are dangerously weakened or abandoned.

Even granted some special security for outstanding debt, the prospects for advantageous future borrowing under restrictive tax rate limits are poor. Each new loan tends to increase the ratio of fixed charges to the total allowable budget. In some Ohio cities and counties, in fact, the menace of this increasing debt service ratio is being steadily accentuated at present through the refunding of millions of dollars of special assessment bonds with general obligation bonds whose service falls within the tax limit. While hoped for increases in assessed valuation, as construction revives and realty values recover, may be looked to for periodic relief, there is no assurance as yet against recurring depressions.

Investors in municipal bonds may have been somewhat oblivious of the menace of limited tax rates in the long period of rising property valuations, but their present point of view is one of increasing discrimination. This is being reflected more and more in the spread in interest rates between limited tax and unlimited tax bonds. Many conservative investors are declaring against any municipal securities involved in arbitrary rate limitations, partially, no doubt, because of the legal intricacies which sometimes becloud the issuance of bonds under such conditions. The rise of such sentiment is particularly significant in view of the fact that most obstructive rate limits are newly enacted and have not had time, as yet, to demonstrate their full nuisance value.

Any spread of arbitrary and inflexible tax rate limits is bound to have the positive effect of undermining municipal credit. They have been ineffective in reducing the cost of municipal government in the past and offer poor prospects of any such accomplishment in the future. As a left-handed means of correcting the tax system they are dangerous and bungling. It is unfortunate indeed that the promoting interests cannot see constructively beyond the predicament which they have helped to create for themselves and turn their civic enthusiasm to more worthy and fruitful public objectives.

The By-Products of Tax Limitation in West Virginia[1]

Tax limits have not meant tax relief but have led to increased demand for state aid, new types of local taxes, and evasion of maximum levies

JOHN F. SLY

Princeton University

TAX limitation as practiced so freely in the United States today has its roots deep in a "program." The "program" lends itself readily to simple statement, is easily translated into political promises, and appeals strongly to the "practical man" who is quick to identify preferred treatment with the general welfare. To itemize it is a matter of a few moments:

First, that property taxes shall be reduced from one-half to two-thirds of the prevailing amount.

Second, that the strictest "economies" shall follow (indeed, *must* follow) such drastic reductions.

Third, that "economies" mean not only reduced budgets, they mean a more or less complete rearranging of outworn governmental structures.

Fourth, should moderate "replacement" revenue be indispensable, it must be raised by "indirect taxation."

Fifth, that state aid shall replace "essential" revenues lost to local government through "tax limits" on property.

When West Virginia adopted her famous tax limitation amendment in November 1932, these purposes, though vaguely formulated, were back of the seven-to-one vote that added the new doctrine to the state constitution. The amendment promised achievement by grouping all general property into four classes and placing a "tax limit" (a maximum levy) on each class, based on each $100 valuation—namely, 50 cents on class I property, $1.00 on class II, $1.50 on class III and $2.00 on class IV.[2]

Hardly had the furor of the election died away, when a sobered citizenship looked about with the bewilderment of a half-remembered episode faintly identified with loud speakers, huzzas, and ballots. At no time in the pre-election fervor had the practical problems of administration been even remotely considered. It seemed never to

[1]The following publications by John F. Sly, George A. Shipman and others have been freely used in the preparation of this article: W. Va. University, Bur. for Govt. Res., *Public Affairs Bull. No. 8,* "Tax Limitation in West Virginia"; *ibid.,* No. 9, "Indirect Taxes"; *Natl. Muni. Rev.,* Vol. XXII No. 11 (Nov., 1933), "West Virginia S. O. S."; *Survey Graphic* (March, 1935), "The Fallacy of Tax Limits".

[2]The classes were as follows: *Class I*: All tangible personal property employed exclusively in agriculture, including horticulture and grazing; all products of agriculture (including livestock) while owned by the producer; all money and all notes, bonds, bills and accounts receivable, stocks and any other intangible personal property. *Class II*: All property owned, used, and occupied by the owner exclusively for residential purposes; all farms, including land used for horticulture and grazing, occupied and cultivated by their owners or bona fide tenants. *Class III*: All real and personal property situated outside of municipalities, exclusive of classes I and II. *Class IV*: All real and personal property situated inside of municipalities, exclusive of classes I and II.

have occurred to anyone that so drastic a step could have been taken without either legislative or administrative inquiry into the fiscal effects of such a policy. But when the legislature convened in regular session, January 1933, the new governor faced the situation squarely and informed the state for the first time that:

"The tax limitation amendment . . . has revolutionized our revenue system. Not only has it set up a classification scheme without precedent in American public finance, but it has reduced the total income from the general property tax for current expenses from over $40,000,000 in 1932 to an estimated gross yield of $23,000,000 in 1333."

The solution of this problem brought forth a fiscal impasse which placed the legislature in an impossible situation. Due to no fault of its own, every effort ended in countless fiscal and legal dilemmas. A bitter legislative session, followed by adverse court decisions, literally stopped local levies, and with them local government in important sections of the state. Municipal officers served in "acting capacities." School teachers were paid exclusively from state aid funds. The county functioned on a "voluntary basis," and the state tax commissioner issued "temporary tax tickets" to large public service corporations "requesting" payment in advance of legal levies. There was, in short, the greatest confusion, and over everything hung unsolved myriads of legal questions.

It took three additional sessions of the legislature to untangle the problems, but when the "solution" was safely bound in the chaptered laws of the state, there was no denying that the immediate results which the taxpayer had in mind were surprisingly fulfilled. The first year's levies under the new amendment saw tax tickets on general property reduced from one-half to two-thirds. Business, industry, and commerce, as well as the propertyless citizen of substantial income, occupied a new and larger place in the tax picture. The first eight months brought a state centralized highway system, a county unit for the schools, and greatly increased sums in state grants for hard pressed school districts. There was, in brief, much reason to believe that the amendment had "worked" just as the citizens hoped that it would.

LOST REVENUE

The consequences of these changes, however, became as plain as the changes themselves. In the first place the repercussions on local units with local revenue cut in half and more, led at once to increased demands for state aid, new types of local taxes, and the quiet evasion of the maximum levies. State aid centered around the pressure of organized school groups to secure additional funds—particularly for capital expenditures. Cities—crushed under debt burdens that had first claim on all local levies—lobbied (with the most modest results) through three additional sessions of the legislature to secure part of the state gasoline tax for their streets and alleys, to increase business license taxes, to levy against public utility sales, and to lay local consumers' sales taxes.

The amendment had provided that maximum levies could be increased by fifty per cent upon a vote of 60 per cent of the qualified voters, but true to the tradition of indirection in American local government, the voter denounced every effort to impair his "savings," railed at the loss of local services, and ignored attempted evasions of the tax limits, provided only that they were pleasantly obscure. These took the well known forms of refunded floating debt to permit increased current expenses, new interpretations of "revenue

bonds" to relieve a restricted borrowing power, attempts to pledge "indirect revenue" for interest and sinking fund payments, excessive delinquency allowances on levy estimates, and strange devices in the form of service fees to maintain the municipalities.

NEW REVENUE

In the second place, replacement revenue, instead of reduced expenditures, became the dominant note of legislative effort. The results were these: Property taxes were, as stated, cut almost in half; indirect taxes were nearly doubled. Business and occupation taxes jumped from some $2,300,000 to $8,600,000. A railroad privilege tax from $90,000 to $1,400,000. A new personal income tax, a new beer tax and a new medicinal liquor tax added some $1,500,000, and a 2 per cent consumers' sales tax promised a $6,500,000 annual yield.

With it all there came a great centralizing movement requiring the state to either take over certain local services, or support certain local services from state-collected taxes. This resolved itself into greatly increased state aid to local schools, the complete state support of highways and secondary roads, and an unsuccessful attempt to relieve the localities of debt burdens by extending relief in the form of state credit. At the same time the new fiscal support was based on indirect taxes. These are likely to be more elastic than the general property tax and to vary more rapidly with adverse business conditions. Should this be true under present fiscal methods, it would tend toward short-term financing, casual deficits, and unstable services. There is reason to believe that West Virginia, under her present indirect tax structure, would fare far worse under depression conditions than during the years 1929-1932.

"TAX SAVINGS"

There developed, moreover, other phases to the situation. The citizen soon discovered that lower property levies did not necessarily mean tax savings. He observed that the entire load of public revenue as it is borne by the individual must be weighed to determine whether real relief was achieved. In other words, the reduction of the tax ticket did not and could not reflect a proportional reduction in public expenditures; and, consequently, it became necessary to transfer tax burdens to some other immediate source. In popular understanding this was a shift to indirect taxation; and the justification of the change was that the burden rested upon a broader base and that it represented a more equitable capacity to pay.

All taxes, however, ultimately come back to the wealth of the state, and unless expenditures are reduced the gross load upon that wealth is substantially unchanged. If tax limitation brings relief, it is only because a redistribution among taxpayers has tapped this wealth more nearly in proportion to measured ability. Tax burdens result, when public revenue is fixed; and public revenue is fixed, when public expenditure is inelastic. The way to reduce taxes is not to limit levies but to stop spending; and the most practical test of "relief," is the extent to which public expenditures can be intelligently curtailed in response to falling values. This may have little or nothing to do with tax limits.

PROPERTY VALUES

There is another important point. Will levy limitation affect property values? This is a question which economists have pondered for many years, and while full presentation of their reasoning would be out of place

here, informed opinion seems to be about as follows:

1. Immediate savings to property owners are quickly capitalized in the resale price of their holdings. One fixed charge (taxes) is reduced, and the saving is added to income (rent) temporarily increasing value. The enhanced borrowing power on the new value will soon be utilized, and when the next depression arrives, fixed charges will bear as heavily as ever upon the property owner.

2. Continued curtailment of governmental services may reduce property values. Part of the unearned increment upon property is the service which is rendered the community by government. If such services remain curtailed over a long period, their absence, particularly in the face of their increased need in a relatively congested area, will reduce the value of the holding.

3. Savings under tax limits accrue chiefly to large owners and absentee holders. In general, limited levies tend to reduce governmental services out of proportion to total tax savings. The small home owner saves on his tax ticket but loses in service what he fails to make up in indirect revenue. The large, absentee holder profits because his taxes are reduced, and he is relatively unconcerned about the services rendered or the indirect taxes which he escapes by living elsewhere.

4. Levy limitation has a tendency to accelerate borrowing. When improvements cannot be made on a pay-as-you-go basis because of reduced income, the resort is to bonded debt to satisfy the local demand for better streets, public buildings, and new schools, and to floating debt (as pointed out above) to permit a larger increment of the maximums for current expenses. When bonded debt is likewise under heavy restrictions, the cry is immediately raised for new state grants for capital outlays.

THE CONSEQUENCES

Whatever West Virginia may have learned from the tax limitation amendment, it is very clear that "tax limits" have not meant "tax relief." State and local government combined is spending within a few per cent of what it spent in the recent past, and this in the face of the fact that administration, legislature, and press have carried on an unceasing campaign for reduced expenditures. The famous economy session of the legislature in the summer of 1932 hacked with a will at public expenditures only to find them bobbing to the usual level within a twelve-months period. The restriction of taxes to 85 per cent of the previous year's estimates merely caused much of the loss in revenue to be absorbed through the non-payment of floating debts. The only place in the public service where there has been voluntary economy is in the state administration, for it is only here that there has been an opportunity for real control. The result has been appreciable reductions in the cost of the state executive establishments, of state institutions, and of higher education. Unfortunately these items constitute a small fraction of all state and local expenditures, and such reductions as have been made represent a serious curtailment in services rendered.

The control of local expenditures is the next step in the tax problem, and it is the surest road to tax relief. This is the type of discipline that must accompany the use of state-collected, locally-disbursed taxes if efficiency and economy are to mean anything in local self-government, and if the needs of the public service are to be adjustable to the uncertainties of indirect revenue. The conclusion of all close observers is well nigh unanimous: tax limits at

best have a subordinate place in fiscal control methods, and serve no more than as a temporary, and often distorted, restraint on public services. At their worst they can paralyze public services. There will be no important relief from revenue excesses until well-planned fiscal methods are substituted for the legerdemain of limitations that do not and cannot limit. The real answers to tax relief are old answers—state supervision, modern budget-control methods, the scientific reassessment of all general property, and an attitude of mind that looks upon government as a public service rather than as a major industry.

Briefly, the consequences of West Virginia's tax limitation amendment suggest these problems and trends:

1. The probability of further litigation under the amendment centers around the differences in treatment accorded to owners as apart from renters, and accorded to agricultural uses as apart from other uses of property. Wherever a standard of social values is the keystone of state legislation, the possibility of litigation under the federal constitution must be recognized.

2. The continuous adjustment of indirect taxation to avoid penalizing economic activity, and to keep the tax burden as nearly as possible on a capacity basis.

3. An increasing pressure upon the "maximums" to exceed the limitations where local revenue is inadequate to satisfy demands for service, through rising assessed valuations, new forms of local taxes, excessive "delinquency allowances" and refunding ventures.

4. A steady pressure on the part of taxing units to compel an increase in their allotted share of the levies.

5. Either a severe curtailment in all capital investments and a consequent falling off in public works projects, or the introduction of new forms of finance that will receive judicial approval under the new restrictions. This has already caused great difficulty in securing PWA loans.

6. The increase of state supervision over local units—namely, state support of county functions, the increased control of local schools, the integration of city-county services, and a greatly expanded state administration.

After all, the tax limitation amendment gave West Virginia a most confused and uncomfortable experience, and it is not one which it cares to see repeated. Yet the required adjustments are still far from completed, and the ultimate consequences are still far from clear. A good many difficulties could be corrected by redrafting the amendment, but this appears to be a political impossibility. In brief, the tax limitation amendment cannot be expected to produce permanently the relief which the taxpayer desires. This must come through the improvement of his government, rather than through his solemn vows to tax himself no further.

We should stop inserting tax restrictions in our state constitutions and we should remove those that are already there. Considerable overhauling of most of our state tax systems is highly desirable. This overhauling should be on the basis of the most careful study and the most expert assistance available. To tie the hands of the legislature so that it can pass neither good laws nor bad ones is folly. *Taxbits*, December 1934, issued by Tax Policy League, New York City.

Ohio Learns a Second Lesson

Tax limitation on real property has forced local governments to find new sources of revenue or shut off essential services

S. J. BARRICK — *Executive Secretary, Ohio League of Municipalities*

THE false hopes aroused by the "cure all" of tax limitations are proving to be bitter disappointments to taxpayers as Ohio receives another lesson in the form of a constitutional 10-mill limitation. This constitutional amendment became effective in 1934 when tax rates were set for 1935 collections. The second half of the general property tax collections for the year are now being received. The results are chaos in local government finance and the prospects for 1936 are much worse than the current year.

Two other contributory causes of local financial chaos must be considered along with the havoc created by the drastic reductions imposed by the 10-mill limitation. These are (1) reduced valuations and (2) delinquent taxes.

The reductions in revenue resulting from reductions in value and increased delinquency cause the reduction due to the 10-mill limitation to be still more serious. The reduced valuations are shown in Table I.

TABLE I

TOTAL ASSESSED VALUE OF TAXABLE PROPERTY IN OHIO, 1930-1934

Source: Tax Commission of Ohio

YEAR	VALUE
1930	$13,452,946,926
1931	10,003,960,495
1932	9,155,795,880
1933	8,072,346,768
1934	7,995,457,299

Note: Taxes levied on these values yield revenue for the succeeding fiscal year.

The taxes levied on the values above are shown in Table II. The reductions in the taxes levied from $301,873,388 in 1930 to $180,942,589 in 1933 show the effects of the depression on general property tax revenues in Ohio. This reduction of more than 40 per cent is an indication of the economies that have been effected in local governments.

Another result attributed principally to the depression was the increase of delinquency (see Table II). The delinquent taxes of the current and prior years increased from $62,846,078 in 1930 to $164,172,948 in 1933. The delinquent taxes levied in 1933 were approximately 91 per cent of the taxes in that year on a current duplicate. The delinquent taxes levied in 1934 exceeded the current taxes by twenty-five million dollars.

TABLE II

TOTAL TAXES EXCLUSIVE OF SPECIAL ASSESSMENTS LEVIED IN OHIO, 1930-1934

Source: Tax Commission of Ohio

YEAR	TAXES LEVIED ON CURRENT DUPLICATE	ACCUMULATED DELINQUENT TAXES
1930	$301,873,388	$ 62,846,078
1931	222,270,256	92,632,183
1932	201,345,549	112,228,924
1933	180,942,589	164,172,948
1934	150,195,152	175,442,460

The reduction in taxes levied due to the constitutional 10-mill limitation are partially reflected in the reduction of taxes levied for the year 1934. Table

II shows that taxes were reduced approximately thirty-one millions of dollars in 1934. The reduction due to the 10-mill limitation was approximately forty million dollars. Therefore, the reduction due to the limitation is not fully reflected in the total taxes levied because some additional levies were voted outside of the limitation.

THE TEN-MILL AMENDMENT

Tax limitation is not new in Ohio. Statutory tax limitations have been in effect for twenty-five years. The statutory 15-mill limitation was placed in the state constitution in 1929 when the voters abolished the "uniform rule" provision for the taxation of personal property.

Proponents of the tax limitation plan were encouraged by the success of obtaining a constitutional 15-mill limitation. The depression presented an opportunity for the distressed alarm of "heavy tax burdens". The most direct form of taxation, the general property tax, was attacked the hardest and the 10-mill limitation was placed in the constitution by an initiated amendment adopted in 1933. This imprudent measure, of course, attacks the main issue of public expenditures in an entirely backward attempt to reduce the tax burden.

TAX BURDENS SHIFTED, NOT REDUCED

The backers of the tax limitation plan used the false propaganda that taxes would be reduced. They knew that this was not a true statement but avoided any discussion of the measures that would have to be taken when the 10-mill limitation was placed into effect. Their strategy is explained in a statement by Adam Schantz, III, Dayton, Ohio, Chairman of the National Committee on State and Local Taxation of the National Association of Real Estate Boards.

> I attribute much of our success in Ohio in attaining the 1 per cent limitation amendment to an unusual and widespread public support by "butchers, bakers and candlestick makers". We religiously avoided even peeping the words "sales tax", "income tax", and "other taxes". We kept our hands strictly off any suggestions for new taxes. Had we begun to suggest a state sales tax, or an income tax, or some other form of tax, we would immediately have incurred the enmity of groups and individuals specifically touched by such new taxes advocated. As it was, we aroused no antagonism by suggesting where the tax should be placed. We only used simple slogans such as "Save our Homes", "Fair Taxes for Real Estate", etc.
>
> Attempt after attempt was made by a certain group opposed to our limitation amendment to get us to come out specifically and state where replacement taxes should fall. They knew that would be our "Achilles' Heel" and they were out to strike us in a weak and vulnerable spot.
>
> Whenever the protectors of other forms of wealth carry on their lobbying activities and organizations, they are not particularly interested where taxes fall so long as taxes do not fall on the particular thing they are trying to protect. Why, then, should the real estate interests seek to execute themselves and lose chances for their own protection by being pulled into this trap? *I will agree that this is not the enlightened way to look upon the problem of solving our taxation mess.*

The tax burden, especially upon the small taxpayer, has not been reduced in spite of the depression and the resulting 10-mill limitation.

The reduction in taxes levied in Ohio due to the 10-mill limitation has been estimated to be approximately $40,000,000. The property tax in this state is levied for the support of local governments, the state receiving its revenue from excise and franchise taxes. The depression-forced economies were effected by reduction in the number of employees, salary-cuts, and in some cases, curtailment of services. Many communities discontinued street lighting and services such as the collection of refuse because of economy measures.

Further economies were, therefore, impossible. The alternatives forced upon the state were either the shutting off entirely of essential services or tax levies upon new sources of revenue in amounts sufficient to replace the property taxes lost by the limitation. The latter course was decided upon and the general assembly enacted a sales tax which went into effect in January 1935.

The sales tax was estimated to yield approximately $60,000,000. The tax commission now estimates the maximum yield for this year at $45,000,000. As replacement revenues, the sales tax would have been adequate since the reduction from the 10-mill limitation was about $40,000,000. The state, however, appropriated $18,276,500 of sales tax revenues as follows:

Old Age Pensions	$6,000,000.
Old Age Pension Administration	375,000.
Poor Relief	6,000,000.
County Poor Relief Bonds	4,000,000.
Sales Tax Administration	1,901,500.
Total State Appropriations	$18,276,500.

The deductions of the state appropriations will leave the replacement revenues $15,000,000 short of the amount of the reductions in property tax levies. The commission estimates that school districts will receive approximately $18,000,000 and local governments $10,500,000.

The 1935 budgets of all local governments included the estimated receipts from the sales tax which are proving to be far in excess of the actual amounts that have been or will be received for this year. The deficit of local governments exclusive of school districts will be at least $7,000,000 as a result of the failure of the sales tax to yield the amount originally estimated.

The distribution of the local governments fund is made to the political subdivision in the county by the budget commission from a lump sum received by the county. This distribution within the county is on the basis of needs as determined by the county budget commission. This results in great variations as illustrated by the following example: Lucas County and Franklin County had an original allotment of approximately one million dollars each. The Lucas County Budget Commission allotted approximately $750,000 to Toledo. The Franklin County Budget Commission allotted $500,000 to the city of Columbus which is approximately the same size as Toledo.

The annual budgets showed very little reduction as a result of the 10-mill limitation. *Taxes* were not reduced; tax *burdens* were shifted. The saving in real estate taxes is from $4 to $5 per one thousand dollars assessment valuations. Assuming that the average home is assessed for taxation at three thousand dollars, the average taxpayer will save from $12 to $15 on real estate taxes.

It has been estimated that the 3 per cent sales tax will cost the average urban resident from $20 to $40 per year. The large owner of real estate including the public utilities and the owners of valuable downtown property have effected a tax saving. The small taxpayer, however, is finding that the 10-mill limitation is costing him more money than he saved on real estate taxes.

TAX LIMITS ARE ALSO DEBT LIMITS

The tax limitation has been declared by the Ohio Supreme Court to be a debt limitation. This has had further serious effects upon local finances. The debt limit of 10 mills was declared to be implied by the tax limitation in the case of State ex rel City of Portsmouth vs. Kountz, 129 O.S. 272, decided

March 20, 1935. The syllabus of this decision is as follows:

1. No legal duty reposes upon the mayor and director of finance of a municipality to sign general obligation unvoted city bonds when the annual millage pledged to service outstanding unvoted general obligation bonds is in excess of the ten-mill limitation, or, when the proposed taxation, if added to the taxation already existing, would, in any one year, during the life of such proposed bond issue, exceed such limitation.

2. A constitutional provision imposing a tax limitation, by implication also imposes a debt limitation.

3. The millage required to service outstanding special assessment and general obligations bonds which, in practice, are serviced from sources of revenue other than taxation, must be included in computing the number of mills already pledged; but funds in the treasury, collected from special assessments or publicly owned utilities may be considered in reducing the required millage. Anticipated or uncollected income from such sources may not be so considered.

4. In determining whether a proposed bond issue is within the ten-mill limitation fixed by the constitution, the outstanding unvoted bonded indebtedness of all overlapping political subdivisions must be included.

The Supreme Court has said in effect that all levies theoretically required to be made, such as the levies for special assessment bonds, poor relief bonds paid by state excise tax and public utilities bonds, because they are general obligation bonds, must be figured in the tax levies required for the debt charges although these levies are not actually imposed. The result is that approximately three-fourths of the eighty-eight counties of the state, including all of the large ones, cannot issue any bonds without authority from the voters. The general assembly passed a law imposing an excise tax on public utilities for poor relief purposes. The counties were authorized to issue bonds against these taxes. The tax is, however, a state tax and is distributed to the counties so that the bonds are only theoretically a county obligation and do not require a levy within the county for their retirement. Such bonds, however, cannot be issued without a vote because they carry a theoretical levy which would increase the tax levies for indebtedness above the 10-mill limitation.

INCREASED DEBT FOR OPERATING EXPENSES

When the first limitation was written into the Ohio laws twenty-five years ago the result was an increase in bonded indebtedness. This became so severe that a uniform bond act was passed in 1925 to regulate and control future bond issues. No bonds were permitted to be issued for current expenses.

The need for revenues because of the limitation has caused these restrictions to be removed. Political subdivisions have been permitted during the last two years to issue deficiency bonds, if approved by the voters. Seven deficiency bond issues were submitted to the voters in 1934. These are as follows:

Akron	$ 450,000.
Cleveland	4,000,000.
Columbus	746,400.
Dayton	375,000.
Delaware	36,500.
Toledo	1,965,000.
Warren	120,000.

The issues in Akron and Toledo were defeated. The other five carried and the bonds were issued.

The tax commission authorized four cities to submit deficiency bond issues at a special election in 1935. These cities were Campbell, Cleveland, Dayton, and Zanesville. The city of Cleveland withdrew its request and submitted an additional levy of 4.4 mills instead of the bond issue. The issues in Zanesville and Dayton were defeated.

The cities of Dayton and Lima are submitting deficiency bond issues at the November 1935 election. The current financial situation in Dayton is typical of a number of communities. The first

1935 deficiency bond issue was defeated in August. Beginning on September 1 the city of Dayton found it necessary to close three fire engine houses, dismiss 150 employees, turn out street lights after 12 o'clock and impose a 27 per cent salary cut. Services of garbage and refuse collection are threatened. After all of these economies have been made the city will still have a deficit of more than $200,000 at the close of 1935 if the deficiency bond issue fails in November.

LIMITATIONS WITHIN LIMITATIONS

The constitutional 10-mill limitation in Ohio is, unfortunately, not the only tax limitation in effect. Police and fire pension levies are mandated by state law up to .3 of a mill each. The 1935 amendments to the uniform budget act imposed further limitations on the power of the budget commission in the levy of taxes for political subdivisions. The minimum levy for each subdivision for 1936 and thereafter is required to be two-thirds of the average levy for such subdivisions for the last five years of the 15-mill limitation. In cases where the two-thirds minimum so fixed does not provide for debt charges within the limits the budget commission is authorized to reduce the minimums to provide for the debt charges and an operating levy but in no case shall the operating levy for school districts be reduced below 45 per cent of the free millage.

These internal limitations, along with reduced valuations, limit the available revenues to a point where local government cannot operate. This is illustrated by the example of funds available for the city of Columbus.

Under the amended budget laws, the city of Columbus will receive 1 mill for operation. The assessed valuation of the city is $345,430,550. Six-tenths of the 1 mill must go for police and fire pensions. This will leave .4 of a mill or $138,000 for operating funds from general property taxes for 1936.

Many communities are in even worse shape as no levies can be made for operating funds and in some cases there will be a deficit in the sinking fund requirements. The lessons taught by this latest taxation experiment are indeed severe for Ohio municipalities, counties and townships. They can be valuable lessons to other states. The Illinois Tax Commission comments in its annual report that, "If the purpose of proponents of tax limitation plans is to produce government suicide, the only surer method is by reducing the limitation from 1 per cent to ½ per cent or zero." The full effect of the 10-mill tax limitation will not be known until all figures are available for the year 1935. The deficits will then be definitely known and the prospects for 1936 can be more accurately forecast. It is to be hoped that some means will be found to continue the operation of local government and maintenance of essential services. The essential services and functions of local government are now in extreme danger. The failure to maintain these services will result in great loss to health, life and property. The saving in taxes (?) will be made up in other costs which are proving to be more expensive than taxes.

Probable Effects of Tax Limitation in Illinois

Study of tax limitation proposals indicates plan is impractical and unsound, that its adoption would mean chaos and the complete breakdown of many services of local government

SIMEON E. LELAND *Illinois Tax Commission*

PROPOSALS to limit taxation are not new. Both constitutional and statutory limitations were tried decades ago. Even the methods for avoiding these restrictions are not new. The history of past limitations and the experiences of other states are thus available to Illinois. From them many lessons can be learned. If the state chooses to ignore what has happened elsewhere and adopts a tax limitation without careful inquiry into the probable results and consequences of such action, it can only blame itself for refusing to profit by the mistakes of others. So clear is the evidence against the adoption of a constitutional provision limiting property taxation to 1 or 1½ per cent of its value that it is difficult to see how intelligent people, possessed of the facts, can argue in favor of it. So disastrous have been the effects of recent constitutional tax limitation plans upon well managed governmental agencies that all of those interested in the continuance of adequate public services or in the welfare of governments should unite to oppose this movement—a movement led, incidentally, by those having a vested interest in the reduction of property taxes.

In order to develop a basis for an intelligent appraisal of the tax limitation proposals made in Illinois, the Illinois Tax Commission has gathered numerous statistics. All of the data collected indicate that the 1 per cent tax limitation plan is impractical and unsound. Its adoption will have disastrous effects upon governmental activity in Illinois amounting to chaos and the complete breakdown of many services in various sections of the state. In considering this tax limitation proposal, although we may be interested primarily in the effects upon governmental service, we should not close our eyes to the effects of the plan upon real estate values, a large proportion of which depend for their continuance upon the orderly performance of governmental functions. The advocates of tax limitation plans have too frequently overlooked the fact that the very property values which they hope to enhance by a reduction in the tax rate may be drastically reduced if public services must as a result of unwise legislation be materially curtailed.

Some of the effects of a 1 per cent tax limitation plan in Illinois may be observed from an analysis of existing tax rates. These rates range from less than $1.00 per hundred dollars of assessed valuation to slightly in excess of $8.00 per hundred dollars, or, in other words from 1 per cent to 8 per cent of the assessed valuation of property in the districts to which they apply. Although these rates are based upon assessments made at less than full value of property, it will be absolutely impossible to reduce the 8 per cent rates on depreciated values to 1 per cent rates on full value, as contemplated by the proponents of tax limitation legislation.

The advocates of 1 per cent legislation assume that if the tax rates throughout the state are scaled in accordance with their proposal, assessed valuations can be increased or forced up to the 100 per cent or full value standard. The experience of every state attempting this indicates not only that it is impossible, but that it has never been accomplished. Even assuming that full value assessments could be accomplished either by an Act of God or the one percenters, the plan is still too restrictive to provide sufficient funds for governmental service in many counties. This condition is fully illustrated by statistics of tax rates and assessments in the fifteen counties of Champaign, Crawford, DeKalb, Douglas, DuPage, Hancock, Iroquois, Jersey, JoDaviess, Kendall, Lake, Marion, McDonough, Moultrie and Sangamon.

COUNTY TAX RATES

The actual tax rates in these counties in 1933 ranged from 5.09 per cent of assessed valuations in Lake County and 4.97 per cent in DuPage County to 2.22 per cent in Hancock County. In 1932 the range of rates in the same group of counties was from 5.43 per cent in DuPage County and 5.34 per cent in Lake County to 2.58 per cent in McDonough County. When these actual rates, resting as they do upon depreciated assessments, are converted into full value equivalents, on the assumption that property is assessed at 100 per cent of its worth, the rates range from 1.04 per cent in Moultrie County to 1.90 per cent in Marion County for the year 1933 and from 1.27 per cent in Moultrie County to 2.1 per cent in Marion County for the year 1932. It must, of course, be recognized that the average county tax rate is totally inadequate to indicate the amount of reduction in tax rates that would need to be effected in order to bring the highest combination of rates within any prescribed limitation. Obviously, some portions of the county have much higher rates than other portions and the average fails completely to express the range; at best it can only be regarded as a first approximation to what can be looked upon as a maximum scaling necessary in the county.

Moreover, when the actual tax rates are translated into full value equivalents, only one of the fifteen counties in 1933 would have a rate approaching 1 per cent and no county in 1932 would have a rate below 1.25 per cent. In all cases the rates in 1932 and 1933 were above the 1 per cent level proposed by the advocates of the present plan. In thirteen counties in 1932 the rates ranged from 1 to 2 per cent and were in excess of 2 per cent in two counties.

Further light on the situation may be shed from examination of the township tax rates in the fifteen counties. In 512 townships only 35 average rates were less than 1½ per cent of the assessed values; 421 were from 1½ to 3½ per cent; and the balance (56) ranged up to 7 per cent of the assessment as their limit.

These figures show that the 1 per cent tax limitation plan would drastically curtail governmental activities of the local governments in these counties.

Most of the arguments in favor of a tax limitation plan not only have no factual basis, but rest instead upon a series of fallacious assumptions. In the first place, it is assumed that through the adoption of a tax-rate-limitation plan, assessments can be materially increased and forced to the full value standard. The evidence in every state with experience with tax limitation schemes indicates that full value assessments cannot be achieved by this method. The attainment of something approaching full value for assessment purposes is tedious and time-consuming. It requires diligent and rigorous

administration, with the employment of methods none too popular in local communities. To assume that assessments can be raised to full value in a state where assessments are made by an army of fourteen hundred locally-elected assessors, each an authority unto himself, and working without adequate control or supervision by either county or state authorities, is, to say the very least, quite naive. Until the assessment machinery of the state is drastically reformed and assessments are made under centralized supervision, the same forces which now work for undervaluation will continue to do so. Competitive undervaluation cannot be eliminated by the threat of governmental bankruptcy or the impairment of public service brought about by the adoption of tax-rate-limitation schemes. Once the rates of taxation are limited, the same forces now advocating this plan can be expected to organize to prevent an increase in the level of assessments. First, these interests seek to cut tax rates; next they can be expected to organize to prevent any increase in assessed valuations. If improvement in the standard of assessments is the goal, it can be achieved only by improved and centralized administration of the assessment system. This the experience of American states has demonstrated.

The proponents of tax-limitation legislation assume that by the adoption of the tax-rate-limitation proposal the development of a new revenue program can be forced. This not only places the cart before the horse, but in Illinois it takes no account of the impossibility of securing adequate and thorough-going revenue reform until the archaic constitution of the state is completely modernized. Until a revenue-raising program is developed, tax-limitation plans should not be considered. After such a program has been adopted, a limitation measure will not be needed, for the burden on property should then automatically decrease. In no event should the cart be placed ahead of the horse. In Illinois the harness for a revenue system has not been prepared. Even the proponents of tax-limitation plans are not agreed as to the new taxes to be used for property tax reduction purposes.

TAXING INTANGIBLES

It is likewise assumed by the proponents of tax-limitation proposals that the adoption of this measure can bring about the taxation of intangible property at present rates. They ignore the experience of every state in attempting to tax intangible property. It has been demonstrated so often that it is not now even a matter of debate that intangibles cannot be taxed at the same rates prevailing for the taxation of real estate. In addition it is generally agreed among competent students of tax problems that intangibles should not be called upon to bear the same rates of taxation as are applied to real estate. The remedy for the escape of intangibles from the tax duplicate is not tax-rate limitation, but the adoption of a practical plan for the taxation of intangibles, either at lower effective rates than prevail for real estate, or their taxation upon an income basis.

The advocates of tax limitation proposals also assume that public expenditures will be so readjusted in conformity with the depleted revenues brought about by the tax limiters that marginal or least necessary activities will be first curtailed. The tax limiters also assume that governments will live within their restricted incomes instead of accumulating operating deficits to provide necessary and indispensable services, which deficits probably will later have to be funded and taken care of by bond issues. To assume that the least necessary activities will be first cut is to assume that tax limitation legislation is an adequate substitute for governmental budgeting. Experience has shown

that the reduction of expenditures is to be brought about by proper planning of governmental budgets relating to need and desirability of public services. Expenditure reduction calls for the careful appraisal of governmental activities and should not be contingent upon the arbitrary curtailment of revenue. Those who seek to cut expenditures by limiting revenues have generally never interested themselves in governmental budgets. They have all too frequently been totally indifferent to the consequences wrought by their ill-considered cuts.

REDUCING EXPENDITURES

The time to reduce expenditures, if that is one of the objectives sought by this proposal, is when budgets are being prepared and expenditure programs developed and not without reference to them. When the advocates of tax-limitation legislation assume that public expenditures will be curtailed and that operating deficits will not be accumulated, they ignore the facts of experience and consequences brought about by the tax limitation laws in such states as Washington, Ohio, and Michigan, for example. If the Ohio experience proves anything, it demonstrates the futility of attempting to limit taxes without at the same time limiting the accumulation of debts. The debt burden in Ohio during the time the Smith 1 per cent law was in operation shifted to the backs of the taxpayers a debt burden of approximately $100,000,000. Moreover, from 1912 to 1922, the period within which Ohio was experimenting with a 1 per cent tax limitation law, taxes of counties and municipalities increased 96 per cent, rising from $1,158,000,000 to $2,277,000,000, while the indebtedness of counties and municipalities increased from $3,256,000,000 to $5,964,000,000.

To be sure the proponents of the amendment under consideration in Illinois have proposed a limitation on indebtedness based upon the "fair cash value" of property. It is proposed to limit the indebtedness of cities, towns and villages, including that now outstanding, to 12½ per cent of the fair cash value of the property within such subdivisions until the year 1940, when the limitation is to be reduced to 10 per cent. In rural areas—districts outside the corporate limits of cities, towns, and villages—indebtedness is to be limited to 10 per cent of the "fair cash value" of property until 1940 and to 8 per cent thereafter. No study has been made as to the effect of these limits on existing debts or on how the limits will affect the borrowing needs of various political subdivisions. Before any debt limits are fixed by statute or constitution, a thorough study of indebtedness in Illinois should be made. This phase of the problem the Tax Commission has not yet investigated. However, as a matter of principle the incorporation of debt limits in a constitution is objectionable. Long ago the debt restrictions governed by assessed valuations were found to be futile as a means of controlling the volume of debt, and were demonstrated to be an absurd measure of the need of borrowing or of ability to carry a debt load. The present proposal is based on "fair cash value" rather than on assessed valuations. Perhaps the assessments may be used to indicate the true values, or else the techniques in calculating assessment ratios may have to be used to regulate the issuance of debt obligations. In either case the volume of debt contracted will depend upon the work of administrative agencies, rather than upon legal stipulations. If administration is the key to debt control, more effective criteria can be established than property valuations. Total revenue receipts, for example, may be a better regulator than assessments and certainly more complicated formulae are even more superior. The primary difficulty with restriction by legal fiat, however, is that the rules are

not capable of intelligent application or modification in difficult and absurd situations. All conditions are reduced to a single situation and all communities regardless of differences are required to conform to the limitations applied. In the present instance, slight differences are made between rural and urban communities, but the distinctions are not based on needs nor are they the result of investigations of borrowing requirements. Here again the plans have been drafted without reference to government needs.

MORE LOCAL GOVERNMENTS

One of the conditions produced by tax and debt limitation legislation has been the increase in the number of units of local government. In order to avoid the consequences of limitation plans, new units of government with separate tax and debt powers have constantly been created. Residents of Illinois need only recall the reasons for the creation of the sanitary district and the forest preserve district in Cook County to realize the force of this statement. While it is true that the proponents of tax limitation plans in Illinois seek to prevent the further multiplication of governmental units by the plan of creating "over-all" limitation, their plan does nothing to bring about the simplification of government or the coördination of existing units. Their plan assumes that overlapping units will be revamped and that marked improvement in simplification of local government will take place. This has not followed the adoption of tax limitation schemes in other states, and there is little reason to assume that it will happen in Illinois. The present overlapping character of local government in Illinois is one of the factors which necessitates careful inquiry into the effects of the pending proposal.

There are four conditions which have inevitably accompanied the adoption of tax rate limitation plans. In the first place, they have led to the accumulation of debts—to the accumulation of unpaid bills for services and to the accumulation of unpaid wages due governmental employees, as well as to an increase in funded debts. The floating obligations —unpaid bills and unpaid wages—are beyond the control of ordinary debt limits. So long as services are required and people have confidence in their governments these accumulations will continue in time of need. When the volume of the floating debts becomes sufficiently large the obligations are funded, reduced to judgment or otherwise acknowledged. Sooner or later they must be paid. When this condition is produced by tax limitation plans, all that is gained is higher future taxes. Nothing is gained by making it impossible for governments to defray current operating costs out of revenues currently collected. It is little wonder that limitation plans have generally ruined the market for short-term paper. Financial institutions cannot be expected to finance governmental operations when revenues are both drastically and unintelligently limited. It should be noted, too, that limitation plans have also brought about unsound budgeting.

Finally, in every case where tax limitation proposals have been adopted, they have brought about the discontinuance and an unintelligent curtailment of governmental activity. Instead of making it possible for government to function, tax limitation legislation has made it impossible for many units of government to perform any service whatever—in West Virginia, for example, many governments have been unable to provide any service whatever except upon a fee basis. In other cases, desirable and necessary services have been so drastically curtailed as even to destroy the incentive for the payment of taxes. Why should taxes be paid when governments

(Continued on Page 655)

A Cloud on the New York State Tax Horizon

Study of Conference of Mayors demonstrates that tax limitation proposal, if adopted, would impair or destroy necessary municipal services

ALBERT H. HALL

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A SERIOUS threat to the financial stability and integrity of New York State municipalities exists. It lies in the proposed amendment to Article 8 of the constitution limiting aggregate taxes on real property in the cities, villages, towns, school districts, special districts, and counties of the state to 2 per cent of the true value of real property in money, such limited taxes to cover operating expense as well as interest and principal on indebtedness in these municipal units.

This proposal first appeared in the New York State legislature in 1933 where it was introduced in both houses. In that year, it failed to emerge from committee in either house. In 1934 the same measure was presented again to both houses. It was passed by the senate, but was not reported by the assembly committee.

This over-all tax limitation is sponsored principally by real estate groups. The National Association of Real Estate Boards has been conspicuous in its efforts throughout the country to impose similar limitations in other states. The New York State Association of Real Estate Boards, sponsor and strong supporter of this measure in the legislature last year, has announced that it will again seek similar legislation in the 1936 session of the state legislature.

The Mayor's Conference, alarmed by these efforts to impose upon municipalities of the state a sweeping tax limitation of a type which has been generally discredited as to purpose and effect wherever tried, decided to make a study of the effect of the proposed amendment on the financial structure of every city and first and second class village in the state. This study showed clearly that the proposal, if adopted, would constitute an arbitrary and unreasonable financial limitation which would impair or destroy entirely essential municipal services.

THE STUDY—PROCEDURE

The proposed amendment provides that the amount hereafter to be raised by local tax on any taxable property for city, county, town, village, school district and/or other purpose, including payment of interest and principal on indebtedness as well as operating expense, shall not in the aggregate exceed in any one year 2 per cent of the true value of the property in money.

The term "true value of the property in money" is thus basic in the proposed amendment. However, no plan is set up or authorized in the bill for determining such "true value". Therefore, in this study it was necessary to use the only known criteria of property valuation standards in the state which are the rates of equalization for the various mu-

nicipal units established by the New York State Department of Taxation and Finance. Assessed valuations of taxable local realty on which the 1935 equalization rates are based were obtained for every city and village in the state. The various local equalization rates were then applied to the specific local valuations raising them to 100 per cent or full value. The only exception to this procedure was in the case of New York City where officials indicated that in their opinion the present assessed valuation represents substantially full value.

It next was necessary to obtain for each city and village the amount of the 1935 tax levy. That year's tax levies for education, not appearing in regular city budgets, were obtained from local authorities and included in total tax levies where proper under the terms of the proposed amendment. Then it was necessary to determine the amount of real property tax which might be raised upon true value under the proposed amendment.

THE STUDY—FINDINGS

The following are the salient findings in the analyses described:

(1) If the proposed amendment were applied to 75 cities and villages, including the City of New York, it would be necessary to raise from some source other than the tax on real estate and exclusive of all other types of revenue now being received by these municipalities, the sum of $147,959,121. The tax deficit in 48 cities would amount to $147,344,798, while in 13 first class villages, it would amount to $411,277 and in 14 second class villages to $203,046. In other words, 75 cities and villages would have this year a tax deficit of about $148,000,000.

(2) If the proposed amendment were in effect in 79 other cities and villages, they could raise, in addition to their present tax on realty, a sum from this source amounting to $3,989,668. Twelve cities could raise from the tax on real estate $384,688, more than they now require from this source, while 39 first class villages could raise similarly the excess sum of $2,588,185 and 28 second class villages could raise $1,016,795. In these 79 cities and villages, therefore, the tax limitation proposal would make it possible to impose on realty a burden $4,000,000 greater than is now necessary.

(3) In 5 cities and villages, the amount available from the restricted general property tax would fall $230,786 short of meeting interest and principal requirements on 1935 debt. In 2 cities this amount would reach $104,458; in one first class village $83,873 and in two second class villages $42,455.

(4) In many municipalities, the amount available from the restricted general property tax after paying debt service and fixed charges would fall far short of meeting the cost of essential governmental services.

REASONS FOR OPPOSITION

Cities and villages in New York State oppose the adoption of such a tax limitation amendment for the following reasons:

(1) With existing debt and mandatory expenditures now required of municipalities by the state, many cities and some villages could not realize from this limited tax sufficient revenue with which to maintain absolutely essential municipal services. A staggering annual tax deficit of $148,000,000 which would cause curtailment or abandonment of many municipal services would result from the proposed amendment in 75 cities and villages. This is unquestionably a minimum annual deficit because tax rates in the cities of the state, exclusive of New York City, are the lowest since 1930 in spite of declining revenues and increased expenditures for welfare. Another factor which indicates

that tax rates are at a very low ebb is found in extensive refunding programs which are now lightening tax burdens, but which must be met in future tax levies. The extent of the minimum annual tax deficit problem which would be created by the amendment is indicated by the fact that the general 2 per cent retail sales tax proposed two years ago for the retirement of municipal debt would have yielded only $130,000,000.

(2) The absurd ineffectiveness of the proposed limitation amendment is demonstrated by the fact that it would not limit in many municipalities. Under its terms, 79 cities and villages could raise $4,000,000 more by taxes on real property than they now find necessary from this source to meet their governmental expenditures. *In one municipality the amendment would paralyze local government, in a neighboring community it would permit and encourage profligacy in municipal expenditures.*

(3) The proposed amendment would cause immediate defaults in the payment of bond principal and interest in five cities and villages, with no funds available for any of the operating expenses of these municipal units. It is well known that the credit of the largest city depends in some degree on the financial practices and conditions in even the smallest municipality. Even though a city's debt burden may be small and it is meeting its obligations completely, it cannot expect to retain its high credit standing if other cities around it go into default or become otherwise financially embarrassed. *In the view of some authorities, the proposed amendment, by causing municipal debt defaults, would violate Article I, Section 10, of the Constitution of the United States which provides that no state shall pass any law impairing the obligation of contracts.*

(4) The proposed restriction would ruin immediately in other ways the credit of all municipalities. A tax limitation should not in any way, as the proposed amendment does, impair the ability of local units to pay their debts including bonds, certificates, warrants, interest on debt, sinking fund requirements and judgments. The right to levy taxes to pay such obligations should be outside a tax limitation measure. This principle has been recognized by the federal government in all PWA loans made to municipalities by the requirement that in accepting a loan the municipality must agree to repay it from *unlimited ad valorem taxes.* Federal authorities have affirmed the principle in withdrawing PWA loans to the city of Cleveland, Ohio, because that city was laboring under a constitutional tax limitation which did not recognize the inviolability of municipal bonds.

(5) Similarly, a tax limitation act should not impair the ability of local units, as does the proposed restriction, to meet costs for certain other fixed charges and requirements such as mandatory expenses under old age pension laws, compensation and liability insurance, operation of sewage disposal plants, pension fund requirements and funds needed for public relief. The laws of the state of New York are replete with mandatory requirements affecting the operation of practically every municipal function and service. The proposed amendment would make it impossible for many municipalities to obtain the funds necessary to carry out these mandatory features of existing laws.

(6) The proposed amendment is seriously defective in three important respects:

(a) Under its terms, the proper determination of the "true value of property in money" is basic in the administration of the entire plan. The amendment offers no hint as to its meaning and sets up no machinery to determine "true" value. A vague reference is made to the fact that the legislature may, in its discretion, provide the method of ascertaining the "true" value of

taxable real property. The amount of chaos such a condition might create can hardly be imagined. In a period like the present when assessed valuations are dropping, a municipality might be caught between the upper millstone of tax limitation and the nether millstone of a rapidly vanishing tax base. It is certain that the meaning of true value would be subjected to countless interpretations and that attempts to define it would provoke endless controversy.

(b) A similar source of controversy would be created by the failure of the amendment to make any provision for the definition of the term "independent" school district.

(c) One phase of the proposed amendment is completely contradictory and unworkable. It requires that payments on all debt contracted prior to the adoption of the amendment shall have a prior claim on receipts from the restricted general property tax, but renders it impossible in some cities and villages to raise enough taxes to meet the constitutional mandate.

(7) New York State already has a set of laws providing for reasonable tax limitations in cities and villages. These have been worked out by the state over a period of years, with some regard to the varying needs and abilities of different communities. If new or revised tax controls are desired, these existing tax limitations should serve as a basis for any new legislation. The constitution fixes a limitation for all cities having a population in excess of 100,000. Special statutes fix varying limitations for thirty-one of the remaining fifty-three cities. The general village law fixes a limitation for all villages.

(8) Tax limitation should be by *legislative act* and not by *constitutional amendment*. Once established, a constitutional provision is very difficult to change or repeal, and during a depression one cannot say what the needs will be in better days, what the ability of different classes to pay taxes will be, or what part of the expenses of government should come from property taxes. If the matter is left in the sphere of legislative action rather than placed rigidly in the fundamental law, changes can be made as conditions change.

(9) The proposed amendment would work an unusual hardship upon villages of the state. It provides that where taxable real property is located in a county outside a city, the tax shall be levied by such county authority or authorities as the legislature may provide. The county is thus made the tax-levying unit and presumably can determine the proportion of real property tax to be used for general village purposes and for all other purposes, including the use of the county. However, the county is not liable for any uncollected taxes. This division of authority in tax levying and collecting is most undesirable and the ambiguous position of the village in its tax relationship to the county would undoubtedly be productive of serious conflict.

(10) The proposed amendment advocates a blind and revolutionary change in the municipal revenue system of the state without suggesting any substitute for present revenue, gambling that other new taxes may be found or forced. Such gambling, particularly in New York State, is extremely dangerous. This state has shown a tendency to avail itself of many modern features of taxation in marked contrast to many states where the tax structure is obsolete and new taxes can be found or forced. Further, the state is operating with a large deficit which will probably receive first consideration in any new taxes imposed by the state. It is also well known that municipalities in this state have few possibilities of obtaining substantial revenues from new or revised taxes levied on objects within their corporate limits.

(11) Tax limitations hit local gov-

ernment hardest of all, and most directly as they render the service which mostly benefits property owners. Wherever such limitations are adopted, the state is usually forced to take over from the local units the financing and ultimately the control of certain services which are today locally administered. Locally, taxpayers favoring tax limitations need to make up their minds which functions they would be willing that the municipality surrender and have the state administer. In view of the existing state deficit and the prohibition in the amendment of any future direct state tax on realty, a grave financial problem would confront the state if it were forced to take over any municipal function on a large scale. The state fiscal problem in such an instance would be heightened by the fact that the amendment would deprive it of about $2,300,000 annually in state realty taxes now imposed to meet certain costs in connection with armories and courts and stenographers.

(12) Ample experience teaches that attempts to make violent, wholesale limitations without regard to varying local needs and abilities to pay result in hardships to local governments, and hence to the people themselves, which take long to repair. If the proposed amendment is adopted, the people of New York State may see schools, city and village halls closed and whole services abandoned, as happened in West Virginia, and as is threatened in Ohio and Michigan. These actions resulted from ill-considered, flat limitations, which allowed for practically no local variation.

CONCLUSION

The Mayor's Conference is impressed with the necessity of broadening the tax base so that improved realty may bear a more equitable share of the tax burden. However, the conference is convinced that to close the door ruthlessly on a large portion of the general property tax before even suggesting a replacing source of revenue, is a certain way to municipal financial suicide.

That the cities and villages of the state regard this point as vital in any consideration of drastic tax limitation proposals, was indicated by the action of the Advisory Committee of the Mayor's Conference in passing unanimously the following resolution at a meeting in New York City on October 7, 1935:

"WHEREAS, the proponents of tax limitation are proposing a constitutional amendment limiting over-all taxes on real property in municipal subdivisions of the state to 2 per cent of the true value of real property in money in these municipal units, such limited taxes to cover operating expense as well as interest and principal on bonded indebtedness, and

"WHEREAS, a study by the Mayor's Conference of the effect of this amendment on the fiscal structure of cities and villages of the state shows that it would result in a minimum annual tax deficit of $148,000,000, would in many municipalities impair or destroy entirely essential municipal services, and would also ruin the credit of all municipalities by removing guarantees of municipal bond inviolability now included in the constitution of the State of New York, Therefore be it

"RESOLVED, that the Advisory Committee of the New York State Conference of Mayors and Other Municipal Officials, meeting in the City of New York on October 7, 1935, favoring and granting every possible reduction in municipal budgetary items consistent with sound and adequate municipal service, call upon the principal proponents of this tax limitation proposal to suggest and recommend specific sources of replacing revenue to offset the deficit which would be occasioned by the proposed amendment."

(Continued on Page 638)

Legislative Proposals Last Year and This

Tax limit epidemic seems on the wane. Little legislation secured during past year

JENS P. JENSEN

University of Kansas

SINCE the appearance of "Property Tax Limitation Laws", Publication No. 36 of the Public Administration Service, in February 1934, almost two years have elapsed. There has been no apparent relaxation in the grand offensive of the campaign to limit property taxes by means of constitutional prohibition. In this fact must be found the justification for the attempt to present in the following paragraphs the proposals for tax limitation that have been made, successfully or not, during 1934 and 1935.

The limitation offensive prior to 1934 had netted, during 1932 and 1933, constitutional overall limits in five states, namely Michigan (1.5 per cent), New Mexico (2 per cent), Ohio (1.0 per cent), Oklahoma (1.5 per cent), and West Virginia (0.5—2 per cent). The year 1932 also saw the adoption of statutory overall limits in Indiana (urban 1.5 per cent and rural 1 per cent) and Washington (4 per cent on a 50 per cent statutory assessment ratio). In proportion to the efforts made the batting average had been high. The record of seven states in two years for overall limitation, plus a number of specific or local restrictions, has not been maintained. A considerable number of proposals for both overall and selective limits have been offered since 1933; but the actual number of significant reductions is very small. The successes are, besides, partly offset by similar authorizations to levy for new purposes or to exceed established rate limits for old purposes.

In listing the proposals that have been acted on, adopted or rejected, since 1933, it is convenient to follow a natural though arbitrary division. A number of proposals were acted upon by the relatively few legislatures that were in session during 1934, an off year for regular legislative sessions. In the November election of 1934 a number of referred or initiated measures were voted upon. And, finally, during 1935, while most of the legislatures were in regular or special sessions, an avalanche of limitation proposals were offered and, for the most part, defeated. Recognition is here given to only such limitations as were intended and adapted to effect permanently material reductions in the property tax levies. Otherwise it would be necessary to include a great many measures which are really merely annual legislative determinations of state or local rates; and also to include a still larger number of administrative computations of the rates for counties and other municipal divisions.

Since most of the measures voted on since 1933 were defeated, it is unnecessary to present them in detail, or to describe the administrative machinery set up for them. Such a study can be made more profitably of the limits in effect prior to 1934, especially since none of

the few measures adopted in 1934 or 1935 present any new administrative features.

While the enumeration below is probably accurate, as far as it goes, for the adopted measures, it is no doubt incomplete in that some of the proposals which failed to reach the stage of a legislative bill, or even some which reached this stage, were not reported. But this is no great loss. The picture here drawn is probably essentially accurate.

THE 1934 STATUTORY GRIST

At least four separate statutes were adopted in West Virginia to make the 1932 constitutional limit effective. However, these are not new, but merely supplementary to the 1932 amendment. Their meaning and effect may be learned from "Tax Limitation in West Virginia" by Professors John F. Sly and George A. Shipman of West Virginia University. A minor change affecting school district rates was made in Virginia. In the other direction were two measures permitting increased rates for schools in certain cities in Illinois. The 1934 legislation tax limit output was therefore extremely meagre.

The unsuccessful bills of 1934 were not very numerous or important. And as was to be expected, most of them arose in Ohio. At least three Ohio bills would have raised the rates that might be levied. At least four Ohio bills would have tinkered with the classification, changing the legislative assessment ratios for personal property, as provided under the 1931 constitutional amendment. Perhaps it was in desperation over this proposed tinkering that someone introduced a bill for a progressive capital levy at rates from 5 per cent on $50,000 to 100 per cent on any amount in excess of $1,000,000. An Iowa bill would have reduced the rate on realty. Rhode Island would have limited the rate on real estate to 1.5 per cent. Two separate New Jersey bills would have reduced the overall rate, progressively, to 2.5 per cent after 1940. And two New York measures provided a maximum of 2 per cent.

THE 1934 ELECTION

In Arkansas the voters approved a constitutional amendment of uncertain meaning preventing the legislature from raising any tax rate except upon approval by the legislature, or in emergencies by three-fourths of each house of the legislature. Washington moved its statutory 4 per cent limit (on a 50 per cent assessment ratio) into the constitution. The itemized maximum rates of this law are: state, 5 mills; county, 10 mills; school district, 10 mills; and cities or towns, 15 mills. Other districts are not affected. Oregon, in contrast, rejected a 15-mill constitutional limit (on a 50 per cent assessment ratio). Colorado rejected a constitutional amendment affecting the rates only in a minor degree. On the other hand, Louisiana approved a small increase for schools. The California so-called syncro-tax, an initiated measure which would have established a gross receipts tax and abolished practically all property taxes, did not appear on the ballot, owing to defects in the petition circulated for signature.

THE 1935 MEASURES

First in probable importance of these measures was the Georgia resolution to submit to the voters at the next regular election a proposed constitutional amendment which would limit the rate to 1.5 per cent and classify property as tangible and intangible for tax purposes. The other measures approved were of minor or emergency character. A Delaware act limited the county rate and discontinued the county levy for road purposes. In Illinois at least seven different measures liberalized the rates for certain cities or for named

purposes, such as tuberculosis sanatoria or relief. The Indiana 1932 limitation law was amended in a minor feature; and the Kansas specific limit for third class cities was adjusted. Three Minnesota laws, restricting progressively the rates in certain villages, townships, and school districts, were passed over the governor's veto. A Nebraska act limited the rate of certain counties to four mills. Two Ohio proposals, defeated in 1934, were approved in 1935, one permitting cities by majority vote to levy outside the 10-mill limit for operation, and one authorizing municipal universities to levy similarly outside of the limit. Levies for school bonds were limited in Utah to 2 per cent of the outstanding bonds.

The proposals that failed were far more numerous. One bill in Utah would have limited the vote on property to 1.5 per cent. Two others would have repeated the constitutional restriction in the taxation of intangibles, which would have been unfortunate. A severe constitutional limit was unsuccessfully proposed in Ohio, namely that the present constitutional limit of 10 mills (reduced from 15 mills in 1933) be further reduced to 5 mills. It would not be a long step to propose the elimination of all property taxes in Ohio. Ten-mill constitutional limits were asked for in Texas, Nebraska (in three separate bills), Illinois (plus a $1,000 homestead exemption), Florida and Arizona (two bills). An Iowa measure would have made the constitutional maximum 1.5 per cent. One New York measure would have amended the constitution to abolish the state levy and limit the aggregate local levy to 2 per cent. A similar proposal was made to amend the constitution of Minnesota, while a different bill would have restricted the tax on intangibles at 1.2 per cent on full value. Constitutional limitations were also proposed in Maryland and Massachusetts. Three additional Massachusetts measures would have limited the rates permissible on real estate.

In New Jersey the 1934 proposal to limit the rate to 2.5 per cent was again defeated. So was another bill proposing a limit of 1 per cent for New Jersey. A statutory 10-mill limit was also proposed for Illinois, exclusive of levies for bonds and judgments. Two other Illinois bills would have vested in the tax commission the determination of the average necessary cost of government of cities and counties, and would have restrained the county clerk from extending taxes at a higher rate than necessary to meet this cost.

A Minnesota bill would have placed the limit at 37.5 mills (on a classified fractional assessment ratio). Another would make the maximum not over 50 per cent of the amount levied in 1931 payable in 1932. Two Ohio bills would have increased the percentage of affirmative votes necessary to authorize levies outside of the 10-mill limitation. Another would have required all such outside levies to be levied proportionately against all sources within each political division, an arrangement that would, as far as it went, have abolished the Ohio classification. It was proposed in Indiana to abolish the state rate and to limit the aggregate local rates beyond the present 10-15 mill limit. In Pennsylvania it was proposed to limit all millage rates.

But the bulk of unsuccessful proposals, as well as of the adopted ones, were of limited application, being restricted to particular classes of municipalities or classes of property. In this matter Illinois takes the lead, a fact which is competent evidence to show the unsuitableness of the Juul tax limit law, which for decades has obstructed

public services in that state. One Illinois measure amending the law relating to limits on school levies was vetoed. Another would have reduced the levies for road and bridge purposes from 2.5 to 1.5 mills, and required a referendum for exceeding 1.5 mills. Still another was intended to reduce the maximum city and village tax rate by the amount of special tax for firemen's salaries. Two, on the other hand, would have exempted relief taxes from county tax limitations, and prohibited the county from maintaining an insane asylum.

At least two bills in Colorado were designed to adjust local tax levy limits, one of them by limiting the tax rate on personalty to 30 mills and distributing the proceeds to the taxing units. Kansas would have limited the county rates to 1.6—3 mills, graduated according to valuation. In Iowa it was sought to restrict the levies in special charter cities, and also to limit the rate on land for school purposes. At least one bill to limit Oregon's local levies failed of adoption. Four bills or more in Pennsylvania, designed to limit borough and school levies were rejected. The Utah legislature rejected a proposal to limit school levy rates to 15 mills. And, finally, Wisconsin turned down three or more bills amending various statutes relating to tax limitations.

It is certain that this list of bills does not include all proposals that would limit tax rates but failed of adoption. It does not, for example, include the Kansas proposal to impose a gross receipts tax, whose revenue would have rendered property taxes superfluous. It does not, in short, include measures that would reduce property taxes indirectly. And, of course, it does not include the multitudinous inchoate agitations that did not mature as far as the stage of legislative bills.

While no one knows or will probably ever know how many direct tax limitation proposals were actually offered in 1935, it seems that one hundred would be a fair estimate. The percentage of important proposals actually enacted is almost negligible. The fact that most of the measures reported died in committee, is significant. Is it a warranted conclusion that the tax limitation epidemic has lost its virulence, that legislatures have become immunized? If so, and if business conditions should continue to improve, it may be predicted that tax limitation activity will soon be directed toward getting rid of, or modifying, those limits already in existence.

THE LEAGUE'S BUSINESS

(Continued from Page 604)

hour for YOU AND YOUR GOVERNMENT programs), from the annual meeting of the League at Providence.

Other programs for the near future are:

November 12—"Who Owns Our Roadsides?" Harlean James, Executive Secretary, American Planning and Civic Association.

November 19—"Regional Planning—The T.V.A. An Example." Arthur E. Morgan, Chairman, Tennessee Valley Authority.

November 26—Dr. Dodds as mentioned above.

December 3—"Planning as a Municipal Function." George McAneny, President, Regional Plan Association.

December 10—"Planning as a State Function." Alfred Bettman, President, American Society of Planning.

December 17—"Re-locating the Isolated Settler." Walter A. Rowlands, Specialist in Land Economics, University of Wisconsin.

HOWARD P. JONES, *Secretary*

The Establishment of Satisfactory and Permanent State Welfare Departments

Development of local public welfare units, together with permanent grants-in-aid by the federal government, make necessary a better and stronger state supervision of welfare activities

FRANK BANE — *Executive Director, Social Security Board*

IN MANY states there have been recent indications of a growing awareness of the need for establishing welfare departments which meet the standards of adequacy and permanence. During the past biennium, commissions or committees have been established by the legislatures in several states, and in other states appointed by the governors, to survey the welfare situation and to make recommendations for legislative and administrative changes. To these efforts an impetus was added by the recommendations of the President's Committee on Economic Security and the expectation of the passage of the bill designed to put those recommendations into effect.

Consequently during the sessions of the forty-three legislatures in regular session and other special sessions called during 1935, a large number of bills were introduced seeking to reorganize state and local public welfare machinery or establish entirely new agencies for this purpose. The prevalence of this type of legislative proposal indicates a recognition of the responsibilities which needed to be met and a willingness to meet them both adequately and effectively.

Resulting from the large number of bills proposed was a sizeable number receiving favorable action. Consequently, we now have new agencies or considerably revised ones in Alabama, Arkansas, Colorado, Connecticut, Florida, Maryland, Montana, Nevada, New Hampshire, New Mexico, North Dakota, Oklahoma, Oregon, Rhode Island, South Dakota, Utah, Washington, West Virginia, and Wyoming. This is a heterogeneous group of state statutes representing all degrees of effectiveness, scope of duties, integration of state functions, and proper relationship to local units. Hence it is extremely difficult to classify these new agencies. Perhaps it is sufficient for our purpose to call attention to a few of the more significant developments.

Alabama has created a new State Department of Public Welfare which assumes the functions of the State Child Welfare Department and the State Relief Administration plus the responsibility of administering all public assistance funds in coöperation with the federal agencies. This new department consists of a board of seven members with overlapping terms, a commissioner to serve as executive officer for the department, and a staff. Within the department are created a Bureau of Family Welfare and Public Assistance, a Bureau of Child Welfare, a Bureau of Mental Hygiene, and such others as may be necessary. Associated with the State Department are county departments of public welfare with similar functions.

Wisconsin has recently enacted an

omnibus bill which includes provisions for state and local administration along with legislation for old age assistance, aid to dependent children, and other social security provisions.

The state of Washington has reorganized all state departments and created a State Department of Public Welfare with three divisions for relief, child welfare, and social security. Connecticut has integrated all existing state welfare agencies into a Public Welfare Council with a commissioner appointed by the governor to serve as executive officer. The new Florida Board of Social Welfare includes social security functions. Maryland has added new functions to the Board of State Aid and Charities which empower the board to coördinate, supervise and control all the welfare activities. These examples suffice to suggest the types of statutory provision for state welfare departments already enacted.

With final passage of the Social Security Act, the appointment of the Social Security Board, and the expectation of federal grants-in-aid after Congress appropriates money for this purpose in January, states are now most anxious to know what action is necessary to put them in a position to take full advantage of the Social Security Act. To some it is passage or revision of statutes relating to old age security, aid to dependent children, unemployment compensation, etc. To some it is also the establishment of sound administrative organization to meet the requirements of the federal act.

Perspective demands that the present opportunity be viewed in the light of its historical development. A long succession of state statutes has embodied the responsibility of government for maintaining a substantial minimum of community well-being: the poor laws, provisions for correction, for the care of the insane, and for custody of the aged. At first the mechanism for carrying out these provisions lay exclusively with the local authorities—commissioners of the poor, county jailers, keepers of county almshouses and poorhouses. It early became apparent, however, that there were advantages to the use of a larger administrative unit. There came the state hospitals for the insane, the state penitentiaries and reformatories, and, slowly, state control or supervision over certain locally administered functions—mothers' aid, blind pensions, children's institutions and agencies, etc. In recent years this has been accompanied by state aid. In time this tendency toward coöperative administrative activity reached out beyond the boundaries of the local and the state governments. With such provisions as those for vocational education and for maternity and infancy hygiene, and later for unemployment relief, the federal government, in a fiscal and supervisory function, entered the partnership. The importance of this trend, which united all three levels of government in a united attack upon problems of human misery, can hardly be over-estimated.

NEED INCREASES

It is unnecessary to state in any detail the vast increase in needs which has produced the present definite movement toward improvement of the state welfare organization. Never small even in pre-depression days, the volume of public welfare needs has increased by leaps and bounds in the past half-decade. In place of the two million unemployed in 1930, there were, in 1934, ten million.[1] In place of welfare needs costing, in prosperous days, perhaps seven and one-half million dollars per month,[2] federal relief expenditures alone have fluc-

[1]The Need for Economic Security in the United States, Committee on Economic Security, Chart II.

[2]Eighty-nine millions per year, Leland, Simeon E., "Public Welfare Governmental Relationships: Federal, State, Local." *The Social Service Review*, Vol. VII, Number 3, September, 1934, p. 428.

tuated up and down from $61,000,000 in January 1933 to $197,000,000 in January 1935, to $118,000,000 for August 1935.[3] It is difficult to estimate the effect of social changes so widespread. No one doubts, however, that we have not as yet felt the full effect of the depression in terms of mental and emotional disorders, behavior problems, and dependency and neglect of children. In the next few years we can expect a distinct increase in the need for hospital facilities for the insane, institutional provision for corrections, and placement facilities for dependent and neglected children. To meet these changes we shall need to make sure that we have satisfactory state welfare machinery.

PUBLIC WELFARE DEPARTMENT NECESSARY

The newer responsibilities lie, however, in the field of public assistance. The time has now come when the development of local public welfare units on the one hand, and permanent grants-in-aid by the federal government on the other, have established a clear necessity for better and stronger state supervision of local welfare activities. It is for this reason such states as have not yet established satisfactory state welfare machinery are rapidly moving toward that goal at this time.

What is needed in the way of satisfactory machinery is not difficult to describe. The forward-looking states have for almost a generation had such machinery. They will need only to strengthen and expand what they already know to be a satisfactory organizational structure. For the other states there are three major problems: the establishment of a central welfare authority coördinating the welfare activities of the state; the grant of sufficient powers to enable it to do a good supervisory job over state-wide local agencies; and safeguards to provide adequate personnel.

It is perfectly clear that every state should have a department of public welfare. It is not important that all these departments have an identical structure. The character of other state authorities, the state tradition of governmental forms, and the temper of the legislature in the given state—all these must be considered in selecting the type of organization to be used. In some states there is a preference for "the commissioner" form, a paid executive being selected by the governor and serving at his pleasure. In other states the legislature prefers to set up a "board" of public welfare, having an unpaid membership with official standing, selected by the governor, and having the power themselves to select a director of public welfare. There is no reason to believe that there is inherent virtue in either form.

On the other hand, however unimportant the structure, it is important that the state department of public welfare should have clearly defined, broad functions, with power to perform them adequately. Its functions are usually grouped under the headings: mental hygiene, child welfare, corrections, public assistance. Institutions, while sometimes cared for by a separate bureau or division, are frequently managed by the division in the same field—institutions for the insane under the mental hygiene division, correctional institutions under the division of corrections, children's institutions under the child welfare division.

It is quite clear that to do its work well the state department must have sole authority in its field. It is not to be expected that there will be satisfactory administration when the welfare functions are split up between half a dozen boards and commissions all with overlapping functions, mixed powers,

[3] FERA Releases Number 6296, August 10, 1935; and Number 6507, September 6, 1935.

and uncertain responsibilities. It cannot be too much emphasized that the new burdens will require, even more than the old did, a unified, central welfare authority.

In some states there is a characteristic weakness in the powers granted to the central state authority. The statutes are indefinite. They contain little safeguard against local incompetence and yet provide insufficient statutory resources for the maintenance of a sound supervisory tie. It is important that in the forthcoming legislation in such states the departments of public welfare be given definite supervisory power. With extensive federal grants-in-aid, there should be effective standard-setting and the correlative services by which the standards, once set, may be maintained. Nor should these supervisory powers be granted only in cases of state fiscal aid. They should cover the public welfare field in terms sufficiently broad to enable the state welfare department, without recourse to new legislation, to remedy clear abuses wherever they exist.

The states which have satisfactory state welfare departments know that to set up the department and to grant it sole and adequate supervisory powers is not enough. It is quite as important that the department have well equipped personnel. Nothing can discredit welfare organizations so swiftly as poor personnel safeguards. Experience has indicated that the best safeguards are an enlightened form and a rigid application of a merit service. Not only should this principle apply to the personnel of the state department, but also it should apply to the personnel of every local unit. Indeed, it is definitely agreed that when setting up a statutory provision for the local unit the state welfare department should be granted a definite check on local personnel.

It is fortunate that the trend toward the establishment of permanent and satisfactory state welfare departments had, prior to the depression, been well fixed in the governmental pattern of so many states. They have set precedents and developed principles upon which it should be possible to build, in the coming months, both wisely and well.

A CLOUD ON THE NEW YORK STATE TAX HORIZON

(Continued from Page 630)

The solution of the problem of broadening equitably the tax base calls for a coöperative adjustment of the whole tax structure so that needs and ability to pay may achieve a proper balance. Piecemeal attacks on the problem or drastic undermining of the structure to force hasty and ill-considered revisions, can lead only to fiscal chaos. The success of organized pressure groups in shifting their own tax inequities to the shoulders of others can be for them and the community at large only a temporary palliative for the widespread pains of tax maladjustment. The need is for a broad and unselfish approach to a vital problem of state and local government.

Difficulties in Developing State and Local Career Services

Do we run self government for the sake of the pay-roll? If not, the time has come to insist on a career service in spite of seeming obstacles

LUTHER GULICK *Director, Institute of Public Administration*

BEFORE you scale a mountain you look it over from every face to see where the worst walls are, where there is loose rock, and to find if possible where there are cuts and rock formations which make the ascent possible. It is a good idea to approach governmental problems in the same way. We are interested in the "difficulties" not because we feel discouraged at the start, but because we can proceed more confidently and more safely when we know where the difficulties lie.

So that we may keep on the path, let us first define our terms. When we talk about developing "career service" in state and local government, we mean the transformation of the state and local appointive services so that public employment will become a life work, an honorable occupation which one normally takes up in youth with the expectation of advancement, and pursues until retirement. This is the objective.

What then are the difficulties in developing such career service in state and local government? Without attempting to make any very logical list, I think the following will serve as a good basis for discussion:

THE BARRIER OF PREJUDICE

First of all there is the difficult barrier of prejudice and fallacious thinking, deeply imbedded in public psychology, ideas carried over from the past into a period when they are no longer true. The Commission of Inquiry on Public Service Personnel paid its respects to these fallacies in striking fashion. You will remember the list, including the false notions that "to the victor *belong* the spoils," that "the duties of governmental employees are so plain and simple that men of intelligence can readily qualify themselves for their performance," that "charity begins on the public payroll," that "patronage is the price of democracy," and that "a thoroughly first-rate man in the public service . . . eats holes in our liberties." Did I say "ideas"? These aren't ideas. No one rises to present them with facts and logic. They are unthought emotional reactions. And that is why they come uncontrolled like gooseflesh into the political arena along with the rooster, the eagle, the donkey, and the elephant! This very fact that they are in the realm of public emotions makes them more difficult to eradicate. It is possible to explode a fallacy with logic but the danger is that it will continue to float around in gaseous form. What we need now is some well directed ridicule coupled with the prompt substitution of constructive ideas designed to sink down through informed opinion into the emotional structure of the public mind.

MISTAKEN LOCAL LOYALTY

The second great obstacle is mistaken local loyalty. Do we insist on gasoline, or sugar, or silk, or coal, or oranges that

were found or produced within the confines of our local government? Do we expect to have our dentists, lawyers, engineers, newspapermen, pastors *all* come from the local bailiwick? Then what is the logic of building a Chinese wall about every town and county and state and saying that public employees shall be selected *only* from local residents? There is no use fooling ourselves; it will be impossible to develop a career system in local government without at the same time making way for freedom of transfer from place to place. Men and women of real ability, character, and ambition will not start on a career ladder that has but one rung.

Some of the employee organizations have opposed the elimination of residence requirements for fear that they would thereby lose their promotion rights through the importation of outsiders. There are two dangers in taking that position. First, there is the danger that it will be regarded by the public as an admission of inferiority on the part of the employees coupled with the desire to hang onto the public payroll even when this may mean inferior public service. And second, there is the danger that "local residence requirements" will be a boomerang, that they will stand in the way of promotion by making it impossible for qualified public servants to go on up the ladder in other cities, counties, and states. The removal of legal residence requirements and the opening of certain civil service examinations to qualified outsiders will not as a matter of fact bring on a great migration to and fro of public employees. Private business knows no "residence requirements," and yet there is not much shifting about, especially in the stable industries like the public utilities. The local resident naturally has the advantage in any employment, and the cost of travel is a further very great bar to migration.

There is one more argument, and then I am done with "local loyalty." That is the carpetbagger argument. Some good people say, "We don't want outsiders in our city hall. We want public employees who understand us and know our traditions." This argument makes me weep. It makes me weep not from sympathy for self-government, but because it mirrors such soft, confused thinking where we have a right to expect something better. Everybody knows that government has three kinds of work: executive, legislative, and judicial. Or to put it another way, there is the making of policies, the carrying out of policies, and the adjudication of disputes, public and private. The place where we need public servants who understand us, know our traditions, and represent us is, of course, in the legislative and elective posts where policy is determined; in the administrative posts we want skill and competence; and in adjudication we want men skilled in the law and in judging. Residence plays no part in the picture except in the policy-determining side. It is only muddy thinking that can carry this over into the appointive administrative work of the government, or into the judging for that matter.

Who are the true beneficiaries of this doctrine of "local residence"? Let's be honest. Are they not almost entirely made up of machine politicians who count every public servant as a vote along with his cousins and his sisters and his aunts? Who count it a great loss if every vacancy cannot be filled by an active party worker? Who regard every promotion as a means of improving the vigor of the party machine? The organizations of public employees better think twice before they line up on any vital matter with their worst enemy. There is a wolf in that sheepskin.

LACK OF GROUP CONSCIOUSNESS OF PUBLIC SERVANTS

The third great obstacle in the development of career service in state and

local government is the lack of professional group consciousness among the public servants as a whole. Progress is being made, but we still have a long way to go. The civil service and personnel officers, the city managers, the sanitary engineers, the highway engineers, the fiscal officers, the health officers, the teachers, the policemen and firemen, the housing officers, and various others have established excellent national associations and are developing each their own high standards of public service. But do they stop to remember that they are also part of a greater group which goes to make up the appointive public service as a whole? Do they realize that each group by itself is all but powerless to see adopted its own highest ideals except as part of a larger program which will demand the joint action of all? No professional group, be they teachers, or policemen, or engineers, or clerks, or social workers, can hope to achieve a permanent advance in the personnel standards of their little group, except as this is brought about as part of a general movement involving all groups. If we agree to tolerate bad standards, poor salaries, or the continuation of spoils in any area, the poison will spread. We all meet in the taxpayer's pocket and in the service of the same citizen. It's about time that we got over this "holier than thou" separatist idea and realized that any real advance of the American public service to a permanent new higher plane must come all along the line and include all groups supported directly or indirectly from public funds.

EMERGENCY PSYCHOLOGY

Emergency psychology is the fourth barrier to which I will refer. Everywhere you see statesmen, politicians, and administrators who say, "Oh, yes, we are for civil service, we are for the merit system, we are for careers in the public service. But this is an emergency." Then they proceed to violate every rule of good personnel administration. There have been some splendid exceptions as in the TVA and FCA which we should not fail to note. But the general rule has been to disregard personnel standards because of the emergency. Of course we need a speedier and more elastic civil service policy in an emergency, but this does not mean that we do not need just as high personnel standards. I don't think that the established civil service administrations are faultless in this situation, but I do think that they could have been brought to adapt their rules and procedures to meet the requirements. But whatever has been done in the past, the time has now come to call off the emergency argument and the emergency psychology and remake our personnel policies on a sounder and more permanent basis. We all thought that the recent Congress was going to take the leadership in this direction. Excellent bills were considered and reported out by committee. The President and the United States Civil Service Commission were back of them. But all were lost in the great drive. I think, however, that we may confidently look forward to the time in the near future when the American people will put these on the "must" program.

BACKWARD PERSONNEL ADMINISTRATION

The fifth great obstacle is backward public personnel administration. Are the men who now administer personnel ready with the administrative devices and leadership to open up the way for career service in state and local government? On this point New Jersey, Massachusetts, New York, Ohio, and California have something to say. The Canadian provinces have been doing some hard thinking too. Obviously there can be no career service, no merit system, without personnel departments and personnel officers to handle the administrative features. In the smaller units it is not possible to set up any

elaborate machinery. Therefore they will have to receive their personnel service in so far as selection is concerned through the state department, or through the help of some nearby city or county unit and through the joint use of eligible lists. Where suitable action is not taken by the state, it would be entirely feasible for a league of cities to offer its services. This is especially true of post-entry training. In the development of career services for state and local government the existing associations of public officials can be of great assistance, especially in building professional group solidarity and in the establishing of standards.

In the field of education, local administration and state personnel standards have been combined to produce a career service in considerable measure through the use of "certification." May this not be an excellent policy to follow in other fields of local public service? It will require the coöperation of the professional associations and of the educational institutions. But under present conditions this should not be difficult to arrange with proper leadership from the state personnel department.

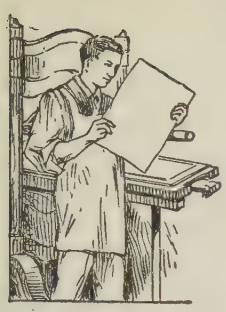
Every career has its apprenticeship period. This is true of young doctors, lawyers, and bankers no less than of carpenters, paperhangers, and plumbers. It follows that the public service must also be regarded as needing its apprenticeship period, a period which cannot be hurdled through any kind of special training or cramming for examinations. If we are to have apprenticeship in the public service there are two obvious requirements: first, definite provision for a steady stream of apprentices under a supervised educational plan; and, second, sufficient patience on the part of department heads and personnel officers so that they will recognize that the newest employees, at the foot of each career ladder, are really "in training" and not as yet "in service" and are to be handled and supervised accordingly. This idea is almost universal in private business; why should it be difficult to bring about its establishment in public business? Where it has already been tried, as in the city manager cities, it has been successful. The universities are eager to coöperate and scores of the best men and women, as they finish school and college, are more than ready to enter at little or no salary provided only there is future opportunity.

While department heads and budget directors will have to be brought into line, development of apprenticeship within the public service rests peculiarly with the personnel administrators, because future personnel is their problem.

THE OTHER BARRIERS

There are many other difficulties in the development of career services in state and local government. There are laws, there are rules and regulations, there are long established administrative customs which do not contemplate careers. There is the problem of finance, and the underlying problem of the proper organization of state and local government. I do not mean to say that these are not difficulties. They are. But in my judgment they are all subordinate to and dependent upon the major difficulties mentioned. With its present tasks American democracy will not be fit to survive if it continues to pursue its past notorious personnel policies. We don't run self-government for the sake of the payroll but for the sake of the service. What we now need is not patronage for the politician, not jobs for the needy, but careers for the capable and ambitious.

EDITOR'S NOTE.—Address delivered September 27, 1935, before the Civil Service Assembly of the United States and Canada.



NEWS OF THE MONTH

NOTES AND EVENTS
Edited by H. M. Olmsted

Council Manager Cities Increase Rapidly.—Approval of city manager government by popular vote in thirteen cities, between January 1 and October 15, with three counties and other cities deciding the question in fall elections, constitutes a new year's record of adoption, according to the *City Managers' News Letter,* issued by the International City Managers' Association. A total of 462 cities and counties are now under the plan.

Compared with last year, 1935 has already bettered the record by six and the total adoptions for 1933 by three. Nearly one in every five cities of over ten thousand population in the United States is now a "manager city."

The latest city to adopt the plan is Saginaw, Michigan, population 80,715, which voted on the question October 14 (see note following). In addition to cities and counties already reported, Saratoga Springs, N. Y., will vote on a city manager charter November 5; Robbinsdale, Minn., December 3.

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Saginaw, Mich., Adopts the Manager Plan.—By a vote of 4,701 to 4,375, Saginaw, Michigan, on October 14 adopted the city manager form of government in place of its present commission charter.

The campaign for the adoption of the new charter was led by the League of Women Voters, which has worked many years toward this goal, together with the Citizens' Protective League, organized last spring against rising real estate assessments.

Among the outstanding features of the new charter are provisions for a complete separation of the legislative and administrative functions of the city's government; establishment of a merit system for city employees, all appointments to be based on fitness, training, and experience; a common-sense system of purchasing; and simplification of budgeting methods. A novel provision is that for the establishment of a bureau of public information and complaint, where the citizen may report his criticism of any of the city's services —a provision for direct and easily accessible contact between the citizen and his local government.

Nine councilmen will be elected on December 2, taking office on January 6 when the new charter will go into effect. Their first duty will be the appointment of a city manager to undertake the administrative affairs of the new government.

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Advances in Personnel Administration.—Two new measures designed to improve administration with regard to local governmental personnel in California and in Hamilton County, Ohio, are seen as an advance in civil service by G. Lyle Belsley, executive director of the Civil Service Assembly, who describes them in the news letter of the association.

Through an act passed by the last legislature, all California cities, which may henceforth adopt by ordinance any type of personnel system, are permitted to contract with any other city or county, or with a state department, for the rendering of any kind of personnel service. This makes it possible for a jurisdiction lacking sufficient funds for establishing and properly administering its own central personnel agency, to use the services of agencies already established and properly staffed. Closer coördination of the activities of public personnel agencies within the state is expected as a result of this measure, Mr. Belsley comments.

The legislative body of the city may designate the establishments and positions coming within the scope of the ordinance and may add others later. It may not remove establishments or provisions from the scope of the ordinance unless two-thirds of the qualified electors vote approval at the regular or special municipal election.

Electors of Hamilton County, voting in November on the adoption of a county-executive charter, will find a provision on personnel anticipating the transfer of employees from one governmental jurisdiction to another through the plan for uniformly classifying positions at all governmental levels. This would make it possible for an employee to enter governmental service in one jurisdiction in the area, and if qualified, to be transferred and promoted to positions in other jurisdictions in the same area.

*

Studying Municipal Financial Problems in New York State.— The officers and advisory committee of the New York State Conference of Mayors have been holding a series of four meetings in various cities of that state for the purpose of studying thoroughly and comprehensively the financial problems of cities and villages, including revenues, expenditures, debts, and taxation. Two meetings have been held; there will be one on November 15 at Rochester and one on December 9 at Syracuse.

*

Local Government Legislation in California, 1935.— A number of measures affecting local government were included among the 733 new laws which became effective in California September 15. The more important include:

A new act authorizes the establishment of civil service systems in cities. Councils may provide for the appointment of a civil service commission or a personnel officer. (Calif. Stats., 1935, chapter 48.) See also "Advances in Personnel Administration" above.

Counties, cities and counties, cities, political subdivisions, and special districts are required to furnish the department of finance detailed reports concerning their bonded indebtedness and supplementary reports within thirty days after further authorizations or sales. (Chapter 82). A new act provides that cities must furnish summary financial statements to the state controller within ninety days after the close of each fiscal year. Minimum requirements of the law are to be supplemented as required by the state controller. (Chapter 443.)

Assembly constitutional amendment no. 3 enables any county having within its territorial boundaries one or more incorporated cities or towns to frame a charter for a consolidated city and county government. This proposed amendment deletes the present requirement allowing only counties organized under general laws and having a population of more than 200,000 in 1910 to consolidate with cities. No consolidation may become effective without a favorable majority vote in each incorporated unit as well as in the unincorporated territory. (Art. XI, sec. 7½).

Another proposed amendment provides for a vote on whether or not a charter should be framed by a board of freeholders. If affirmative, the candidates for the board may then be elected. The legislative body instead of the board of freeholders may frame a charter and submit it to the electors. (A. C. A. 58, Art. XI, sec. 8).

Victoria Schuck

Stanford University

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Precautions Against Traffic Deaths.— In view of the increasing number of traffic casualties there is obvious need for more traffic safety programs—for the enlightenment of both citizen and police officer. According to the *Police Chiefs' News Letter,* published by the International Association of Chiefs of Police, one police training school just held emphasized traffic safety, and another will give careful attention to it. For the third year the Traffic Officers' Training School was held under the joint auspices of Northwestern University and traffic division of the Evanston, Illinois, police department. It ran from October 21 to November 1, with two instruction periods per day and a curriculum confined to "strictly practical aspects of traffic control and accident prevention."

"Through the organization of the Public Safety Institute," says a recent announcement, "Purdue University is endeavoring to coördinate a number of activities now being carried on in the interest of safety. . . ." The Institute will carry on at Purdue and other important centers in Indiana a campaign to impress upon the public the need for greater safety through

regular police channels. Not only will traffic be considered but police protection and researches in science and technology of police administration as well. Frank M. Kreml, director of the bureau of accident prevention of the Evanston police department, has been granted a six-months' leave of absence to be on the staff of the Institute.

The *United States Municipal News*, bulletin of the American Municipal Association and the United States Conference of Mayors, reports that New York and Chicago are instituting courses in automobile driving in their high schools this year. High schools of West Hartford, Connecticut, Evanston, Illinois, and Spokane, Washington, are among other schools which now have courses in automobile driving. The state of New Hampshire, which tried an elective course in automobile driving last year in fifty-seven high schools and academies in the state, this year is making the course compulsory. Motion pictures and talks by police, court officials, garage mechanics, and doctors are used in the instruction. Several cities in New Jersey are contemplating adding driving courses to their curriculums.

The same news bulletin reports that municipal licensing of auto drivers as a traffic safeguard is gaining recruits among cities. Miami, Fla., and St. Louis, Mo., are the two most recently adopting driver's license ordinances. This is a second try in both cases, previous attempts having been declared invalid or repealed.

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National Civil Service Exemptions Threaten State and Municipal Efficiency.—Continued exemption of governmental positions from civil service regulations "is a concession to the exponents of the spoils system" and constitutes "neglect or refusal to promote the efficiency of government." These statements were embodied in a resolution which climaxed the twenty-seventh annual meeting of the Civil Service Assembly, held recently in Milwaukee.

Evidence was produced during the assembly sessions that the exemption of positions in federal government service "either by legislative enactment or executive order" was having adverse effects on local civil service administration. A. O. Allgeyer, secretary of the City Civil Service Commission of Buffalo, N. Y., reported that approximately 1600 "white-collar" relief workers had been added to Buffalo's payrolls and were occupying positions that should normally be filled through civil service appointment.

Although it was agreed that if desirable such evils might be at least partially corrected through a central agency such as the Civil Service Assembly, there was evidence that betterments in public personnel administration could be secured locally, provided professional and civic groups joined in the effort. William Brownrigg, executive officer of the State Personnel Board of California, reported on the effectiveness of the California constitutional amendment governing the merit system of appointment to public office in that state. The amendment was passed by a direct vote of the people during the past year, and already more than 20,000 state employee positions have been put under civil service regulations.

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New York City Contemplates Re-zoning.—The City Club of New York, with the cooperation of other civic organizations, has called upon Mayor LaGuardia to appoint a zoning commission to foster an immediate and drastic revision of the zoning ordinance of that city, which pioneered in that method of controlling the use of private land. The mayor replied, "I quite agree with you that the building zone resolution of the city needs revision. . . . The committee on city planning has gathered some basic facts which will be further refined during the coming year. I believe these facts should provide the basis for a detailed revision of the zoning resolution." According to the *City Club Bulletin* the club "will not relax its vigilance until zoning restrictions (?), which permit the city to accommodate 77,000,000 residents and 340,000,000 workers, have been revised in the interest of sound city planning."

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Municipal Electric Plant Managers Confer with Rural Electrification Administration.—Managers of municipal power plants will hold a conference in Kansas City, Missouri and Kansas, on November 7 and 8, which will be attended by representatives of the Rural Electrification Administration, the REA announced today.

While the primary purpose of the conference

is to bring together municipal plant managers and operators for discussion of their common technical and operating problems, attention will also be paid to the possibilities of collaboration between the plants and REA. Over six hundred municipally-owned plants, or more than a third of the total number, have already extended their lines beyond the city limits and many more have expressed interest in rural electrification throughout their trading areas.

COUNTY AND TOWNSHIP GOVERNMENT

Edited by Paul W. Wager

Georgia—Limitation of Ad Valorem Tax in Prospect.— The last session of the legislature provided for the submission to the electorate of a constitutional amendment limiting the overall ad valorem property tax to 15 mills (excepting rates levied or to be levied for bonded indebtedness); the schools, the city government, and the county would each be allowed a maximum 5-mill levy. Intangibles would pay only 5 mills for all purposes. If the limitation is adopted it is estimated that the loss to local governments, which now perform nearly all services (as the state sorely neglects its duties), would be about $23,000,000 a year. This would necessitate the discontinuance of many local services unless their cost were assumed by the states, which is not likely to be the case.

It should be noted that the state of Georgia does not make or limit assessments, so counties might offset some part of the loss by raising assessments. At present assessments probably range from 25 to 80 per cent of true value from county to county, and overall rates at present range from 7 to 50 mills. The Governor has promised to call an extra session to write a new tax law immediately following the 1936 election if the proposed amendment is adopted. The Association of County Commissioners has appointed a committee to work on a tax program and also to make a study of the cost and value of services now being rendered by local agencies.

A reimbursement bill assuring a refund to the counties of twenty-five million dollars expended on the state highway system (on the assumption that the state would repay the amount) passed the general assembly but was vetoed by the Governor. The county officers will renew efforts to pass the bill at the next session of the legislature. The state attorney says the obligation will be paid, and a lower court refused to enjoin the state payment of the certificates. The case is now before the Supreme Court.

J. Thomas Askew
University of Georgia

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North Carolina—A Laboratory of Government.— A grant of $55,498 by the Public Works Administration to the North Carolina Institute of Government, headed by University Professor Albert Coates, has virtually assured the erection in Chapel Hill of a building to serve as the organization's permanent home and laboratory.

According to the Institute's plans, the edifice will be used for courses of instruction for state officials, to house exhibits and reference materials for public information, and to serve generally as a clearing house for information on effective and efficient government. Into it will go the newest and most effective methods and practices being developed in public offices in North Carolina and other states.

An example of the great public support of the Institute's unique program is the fact that building supply dealers of the state have already pledged the major portion of the materials for the structure. The government's grant is 55 per cent of the cost of the project, and it is estimated that the total cost of the new home will be $123,000.

In outlining the purpose and value of the laboratory, Mr. Coates says: "We have in North Carolina one hundred counties and four hundred towns, all of them doing similar things each in its own way. New and improved methods and practices are constantly arising out of the initiative, energy, and resourcefulness of public officials. To the units making them they are worth their weight in gold. To other units they could be worth the same.

"To the Institute of Government laboratory successive generations of public officials, private citizens, and the youth of North Carolina may come to see demonstrated in one place the governmental methods and practices they would now have to go hundreds of places to find. These methods and practices, brought together in demonstrable form, will lay the

foundation on which we can work toward a uniformity of governmental standards and lift the poorest practices to the level of the best."

Work of the Institute at present includes the publication of a monthly magazine, "Popular Government," the preparation of legislative bulletins, guidebooks for officials, discussion programs for citizens, and supplementary materials for the schools on the actual workings of government.

PAUL W. WAGER
University of North Carolina

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New York State—County Home Rule Amendment.—As this issue of the REVIEW was going to press, those interested in the passage of the county home rule amendment in New York State were optimistic over the chances for approval of the amendment by the voters November 5. A state-wide nonpartisan citizen's committee was organized for support of the amendment, with Governor Herbert H. Lehman as honorary chairman of the committee, Richard S. Childs, New York City chairman, Howard P. Jones, New York City secretary, Joseph A. McGuinies, up-state chairman, and Frank C. Moore, up-state secretary. No visible opposition to the amendment had appeared anywhere except within the ranks of Tammany Hall and it was anticipated that Al Smith's support of the amendment would split the Tammany vote.

The amendment requires the legislature to set up optional forms of county government and removes constitutional restrictions that have hitherto prevented reorganization of county and local government in New York State.

H. P. J.

TAXATION AND GOVERNMENT

Edited by Wade S. Smith

Sales Tax Repealed in New Jersey.—Governor Hoffman of New Jersey, facing almost certain defeat of his revenue program, called a special session of the legislature in October which promptly passed a bill repealing the sales tax law. The call for the special session followed demands from the Clean Government bloc of the Republican party in Essex County, led by Rev. Lester H. Clee, speaker of the assembly and candidate for election to the state senate, that the session be held at once.

The Governor used red ink to affix his signature to the bill because, he said, it meant an unbalanced state budget and possibly "hungry people."

Repeal of the sales tax has been the dominant issue in one of the most vigorous campaigns the state has seen for some time. Led by Clee, the Clean Government group demanded that emergency relief financing be accomplished by economies. It is believed that the governor will agree to divert other state funds to aid the unemployed pending a survey to be made by a budget advisory group.

*

Ohio Organizes Against Tax Limitation.—Fearing still more serious consequences from the stringent tax limitation law affecting Ohio local governments, county, city, and township officials recently met at Columbus to secure organized efforts to overcome the law's effect. They formed the Ohio Association of County, Municipal, and Township Governments.

The state has been divided into four parts with a chairman for each section.

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"Who Spends the County's Money?"—Under this heading, the bulletin of the Western Pennsylvania Branch of the National Economy League reports a *Blairsville Dispatch* article calling attention to the large proportion of county expenditures which are mandatory under Pennsylvania laws and beyond the control of the county commissioners.

The story is one familiar to those in touch with the devious ways of most of our county governments. It is cited here merely for its concluding admonition:

"Get yourself a copy of the (county) audit and look at the total paid out. . . You can obtain a copy at the courthouse. Examine it. Check each item. Read the laws governing these expenditures."

This is advice that ought to be given, frequently and prominently, by every newspaper in every political unit in the country. Taxpayers' organizations, governmental research bureaus, civic leagues, all know why taxes are high; the man in the street knows only that they are high. Familiarity of the voter with the financial documents of the political units in which he lives will go far in securing the legislative action which is generally needed

to accomplish any substantial or lasting economies.

*

Los Angeles County Costs Up.— Los Angeles County (California) government increased the amount it will take from its taxpayers in county taxes by $917,590 or 3.9 per cent, according to a study recently completed by the California Taxpayers' Association.

Studying forty-six California counties, the association found that only three, Mendocino, Modoc, and Sutter, showed actual reductions in their tax demands. The city and county of San Francisco reduced its tax demands for general purposes, but increased its tax rate for schools. In the remainder of the counties net demands to the taxpayers increased, because of decreased rates offset by higher assessed valuations.

The average increase in tax levies in the forty-five counties and the city and county of San Francisco was 4.7 per cent. However, excluding Los Angeles County and San Francisco, the average increase for the other forty-four counties was 14.1 per cent.

It is interesting to note that forecasts based on preliminary budget figures, according to the association, indicated the increase in county tax demands might have averaged as high as 21 per cent. The difference represents the actual efforts of boards of supervisors to reduce county costs and, in a measure, the protests of taxpayers against heavier burdens.

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Commission on Conflicting Taxation Reports.— In a general report, the Interstate Commission on Conflicting Taxation finds that federal and state governments are tapping the same tax base as sources of revenue in more than eight hundred instances. The report, prepared by James W. Martin, research director for the commission, is summarized as follows:

Though many of the bases subject to federal-state duplication are insignificant from the standpoint of revenue yield, at least seven of them are relied upon by each unit of government as major sources of income: the personal income tax, the corporation income tax, inheritance and estate taxes, taxes on admissions to amusement places, tobacco tax, alcoholic beverage taxes and the gasoline tax.

Although the federal government "suffers comparatively less from the present lack of orderliness in inter-governmental fiscal relations than do the states and their subdivisions," the report points out, it has a "vital interest in conserving the yield" of these common tax sources principally because "the states and their subdivisions are at liberty to seize upon types of taxes which they are not as well fitted to administer as is the federal government" and because "in the case of many taxes there is a point beyond which the rate cannot be raised without diminishing the yield."

Under the present system of "independent and competitive utilization of the same types of taxes by both the federal government and the states, there is no possibility of exercising any effective control over the burden of taxation on bases which are shared in common."

Not only do states "suffer from the fiscal individualism of the federal government," the report continues, "they suffer also from their own individualism in their relations with each other. Each state reaches out to tax as much as it can legally regardless of the fact that what is legally permissible may be equivalent to extra-territorial taxation."

Other victims of this "extreme fiscal separatism" the report points out, are the municipalities and other governmental units. "As creatures of the states," it says, "they are limited to such revenue sources as the states prescribe for them. Their only considerable revenue source is the general property tax," which, it is emphasized, "has been squeezed dry."

Out of this general situation of tax duplication and conflict five major evils appear:

> Tax competition between the federal government and the states, which makes it difficult for the states to raise needed revenues or to adopt new financial programs until they know what the federal government will do;
>
> Interstate tax competition, which makes it difficult for a single state to adopt certain new forms of taxation, or, in the case of already existing levies, to impose socially desirable rates unless competing states take similar action;
>
> Overlapping and conflicting state claims to taxing jurisdictions, which result in double taxation of an inequitable nature;
>
> The avoidance of certain types of state taxation, such as sales taxes, under the

protection of the interstate commerce clause; and

Uneconomic division of tax-administering functions, which results in excessive costs, bootlegging and tax evasion.

To eliminate tax conflicts the report cites four major proposals which have been "most vigorously urged":

First, centralization, or the "federal administration of taxes subject to uneconomic administrative duplication coupled with federal grants-in-aid, national administration with state sharing, and state additions or supplements to nationally administered taxes";

Second, federal credits, whereby "when both the federal government and the states impose similar taxes, amounts paid under the state tax would be allowed as an offset against the taxpayer's liability under the federal tax up to a specified percentage of the liability";

Third, segregation, wherein complete or partial separation of the tax field would be secured through the assignment of certain types of taxes exclusively to the federal government and of certain other types of taxes exclusively to the states; and

Fourth, inter-governmental comity, to be made effective through interstate reciprocity and retaliation, and promotion of uniform state laws and administrative methods.

The report examines each of these major avenues of tax-conflict correction at length, supplementing its findings with tables showing past yields of the various types of taxation and possible yields under the palliative proposals.

*

Cities and the Manufacturers' Tax.—Legislation exempting municipalities from payment of the federal manufacturers' tax became effective October 1. It was sponsored by the United States Conference of Mayors and the American Municipal Association. Cities previously paid this tax unless they proved purchases to be for essential governmental functions; and their purchases for parks, playgrounds, airports, wharves, docks, warehouses, cemeteries, water works, lighting plants, railways, and bus lines bore the tax heretofore.

*

WPA Funds Aid Assessors.—Facts assessors and other tax officials have wished to know about their cities but never had the time or money to find out are being brought to light with WPA aid in a number of cities, according to the *Assessors News-Letter* issued by the National Association of Tax Assessing Officers. This federal aid is being used to effect improvements in assessment methods in many places.

Pennsylvania has gone in for map-making projects. Lehighton, Downingtown, Phoenixville, Lansdowne, Wilkes-Barre, Haverford, Parkesburg, Ridley Park, Springfield, Edgeworth, and the counties of Delaware and Chester have had applications for this purpose approved.

Mansfield, Ohio, has a project to correct and bring tax maps up to date. Wheeling, W. Va., is making a map of all city property, and Kanawaha County, W. Va., a card index system for the assessor's office.

Hartford, Conn., is undertaking a reassessment and installation of a modern assessment system. Washington, D. C., is compiling and indexing old records in the assessor's office. Portland, Ore., is making an appraisal of public dock properties. New York City is making an investigation of real property exemptions and inequalities, while Indianapolis, Ind., is making a survey of all taxable buildings for the collection of appraisal data. South Bend and Mishawaka, both in Indiana, have applications approved for comprehensive real property surveys. In Ohio, Cincinnati is compiling a listing of special assessments since 1920, to ferret out the reason for delinquencies. Hamilton County is engaged in a land use survey, to include maps and land classification, while Cleveland is making surveys of family movements in 1934 and the use of thoroughfares to show trends and effects on property values.

Among proposed projects of larger size are the tax assessment and land surveys for the entire states of Arkansas and Michigan and the project submitted by the city of Ashland, Ky., covering a real estate survey of the entire city, which is to include a scientific assessment of all real estate and improvements, plus a revision of the city maps and photographs of all improvements.

PROPORTIONAL REPRESENTATION

Edited by George H. Hallett, Jr.

Two Systems in Alberta.— We are now in possession of more complete figures for the Alberta provincial elections referred to in this department last month and reproduce some of them here to illustrate further the contrast between the distortions of the single-member district system used in the country districts and the complete fairness of the P. R. system used in the two largest cities.

In the single-member districts the alternative vote or Hare system of majority preferential voting was used. This insured a true majority verdict in each district instead of a plurality but actually in this election it made no difference in the result—the candidate who would have won in an ordinary plurality election won in every case, usually with a clear majority of first choices. There was no representation for the often substantial minorities. How badly this distorted the representation of the province outside the two P. R. districts is shown by the following table, based on figures in the *Edmonton Journal* of August 26, 1935.

ALBERTA LEGISLATIVE ASSEMBLY

(Whole Assembly Except Members from Calgary and Edmonton)

PARTY	FIRST-CHOICE VOTES	MEMBERS ELECTED	MEMBERS IN PROPORTION TO VOTES
Social Credit	123,545	50	28.7
Liberal	47,052	1	10.9
United Farmers of Alberta	30,576	0	7.1
Conservative	8,644	0	2.
Labour	2,073	0	.5
Others	7,771	0	1.8
	219,661	51	51

Contrast this with the official results in the two principal cities under the Hare system of proportional representation, applied to each city as a single six-member district.[1]

PARTY	FIRST-CHOICE VOTES	MEMBERS ELECTED	MEMBERS IN PROPORTION TO VOTES
CALGARY MEMBERS			
Social Credit	24,079	4	3.5
Liberal	8,000	1	1.2
Conservative	5,505	1	.8
Labour	1,869	0	.3
Independent and Communist	1,740	0	.2
	41,193	6	6.
EDMONTON MEMBERS			
Liberal	14,033	3	2.3
Social Credit	13,853	2	2.2
Conservative	4,820	1	.8
United Farmers	2,092	0	.3
Labour	1,373	0	.2
Communist	1,096	0	.2
	37,267	6	6.

[1]We are indebted for the figures in these two tables to Mr. John D. Hunt, Clerk of the Executive Council, who is retiring at the age of 77 after a notable career of public service. Mr. Hunt is an authority on P. R., in which he has long been a firm believer.

Eighty-two per cent of those who cast valid ballots in Calgary, and eighty per cent in Edmonton, helped elect candidates for whom they had voted. These included, of course, many of those whose first choices were for candidates of parties with too little support to elect a member of their own. Only 2.9 per cent of the ballots were invalid or blank in Calgary, 3.2 per cent in Edmonton.

Commenting on this remarkable election, which, because of the lack of P. R. in the country districts, blotted out entirely the United Farmers of Alberta after fourteen years of ascendency and gave Premier Aberhart and his untried band of Social Credit followers an exaggerated majority of fifty-six places out of sixty-three, the *Edmonton Journal* said editorially: "Whatever the new government does, it is to be hoped that it will not do away with P. R. in Alberta. If it wishes to make a movement in the right direction, it might well amalgamate Alberta's single-member ridings into multi-member constituencies and put P. R. into effect over the whole province."

*

Weighty Testimony from Cincinnati.—Commenting editorially on a recent attempt to repeal P. R. in Cincinnati, which failed for dearth of signatures to put the repeal on the ballot, the *Cincinnati Enquirer* said in its issue of September 18, 1935:

"The people of Cincinnati can be grateful for proportional representation. It enables them to vote with the certain knowledge that their ballots count, and count for some candidate who needs those particular votes. It gives us a council fairly divided between parties, and well balanced as among racial, religious, and economic groupings. It is the fairest system of voting yet devised for the choice of a body of representative public officers. Wise citizens will not be misled by false charges that P. R. is unfair or impractical."

Like many citizens of Cincinnati who have since been thoroughly convinced of its advantages, the *Enquirer* opposed P. R. when it was first adopted in 1924.

*

P. R. to be Taught in New York Schools.—The 1935 edition of "Our City—New York," which serves as a text book in civics for high school students throughout the city, contains for the first time a page on proportional representation. To illustrate the argument for the system the account gives the figures for the 1931 election of the New York Board of Aldermen, in which the Democratic Party with 65 per cent of the votes elected 98½ per cent of the members—sixty-four out of sixty-five.

*

Scottish School Boards.—Ever since the Hare system of P. R. was adopted by act of Parliament in 1918 for Education Authorities throughout Scotland, this interesting application of the system has always been listed whenever the important uses of P. R. were enumerated. Usually the authorities have been referred to in this country as "school boards" because of their similarity to school boards here, although the term "school board" in Scotland applied technically only to the parish boards for smaller areas.

We have only recently learned that the use of P. R. for Education Authorities in the thirty-eight counties and county burghs in Scotland was discontinued in 1929, not because the method of election was changed but because the Authorities themselves were abolished.

"There was never any reflection upon the excellent service of these authorities as regards education," writes Mr. Alfred J. Gray of the British P. R. Society, "but they had the drawback of constituting a separate taxing authority and the tendency for centralization again came into play in the year 1929, in the passing of the Local Government (Scotland) Act. The main effect of this act was in the direction of assimilating the local government system of Scotland to that in England. As one item of this assimilation, the *ad hoc* education authorities were abolished. The present education authorities are merely committees of the county council, (as in England) to which are co-opted by the council certain persons from outside having special qualifications.

"The chief non-official educational organization of Scotland, the Association of Education Authorities, protested very strongly against the abolition of the specific authorities. The authorities were, however, abolished, and P. R. —the innocent victim of its environment— perished with them."

*

P. R. in Memel.—The much discussed election of September 29 for the Diet of Memel, the territory removed from Germany by the Treaty of Versailles and placed within the borders of Lithuania as an autonomous dis-

trict, was carried out by a party list system of P. R. It was, to be sure, a needlessly cumbersome and complicated system, but one which nevertheless assured approximately its proper share of the seats to each organized party. It was the use of P. R. which prevented the German party from electing the entire Diet and gave the Lithuanian minority party the same five seats out of twenty-nine which it succeeded in filling in the P. R. election of 1932.

The figures for the two elections, according to newspaper dispatches, were as follows:

PARTY	VOTES		MEMBERS ELECTED		MEMBERS IN PROPORTION TO VOTES	
	1932	1935	1932	1935	1932	1935
German	52,903	55,716	24	24	23.3	23.5
Lithuanian	12,864	12,925	5	5	5.7	5.5
	65,767	68,641	29	29	29.	29.

GOVERNMENTAL RESEARCH ASSOCIATION NOTES

Edited by Robert M. Paige

Boston Municipal Research Bureau.—During the past year the Bureau has given a great deal of attention to the problem of securing for Boston more equitable treatment in the distribution of federal unemployment relief funds. Luncheons, addresses, conferences, bulletins, confidential and published memoranda, visits to Washington have all been used in what has proven to be a successful effort to secure larger relief allotments. Since the Bureau began intensive work on this problem, Boston has received an additional $4,600,000 in ERA allotments above the former level of grants.

The Bureau participated in the conferences and discussions which preceded the fixing of this year's tax rate of the city and school system by the state legislature and was instrumental in securing a rate of $37.00 instead of the rate of $42.60 which was originally threatened.

In December the Bureau issued a report on reducing Boston's fire department costs as a supplement to two earlier reports on this same subject. The December report dealt largely with personnel problems. Although all of the Bureau's recommendations with reference to the fire department have not been adopted the city has not been filling vacancies in the present excessive number of fire department employees.

A draft of an improved budget law for the city was prepared. Unwarranted and unwise proposals for expenditures which were successfully opposed by the Bureau included extension of hospital facilities at a relief station, a capital expenditure program proposed for the state, the razing of the elevated.

The Bureau, by invitation, gave four radio broadcasts on Boston's tax situation which aroused much favorable comment. It continued to give close attention to the PWA and WPA programs and made numerous recommendations with reference thereto.

*

Buffalo Municipal Research Bureau.—The Bureau, organized in March 1927, began its public work the following June. It has recently published the eighth anniversary report to its members and the public, in a twelve-page issue of its weekly *Just a Moment,* in which the more outstanding efforts and accomplishments of the eight years are briefly listed and described. The report frankly indicates in each case the negative as well as the successful results of its efforts, but in its entirety constitutes a rather notable list of accomplishments. Among them are these: A $5,441,648 reduction in two years in the city budget for operation and maintenance resulting from the Bureau's vigorous recommendation of a $5,000,000 cut; a school survey in coöperation with the Office of Education of the U. S. Department of the Interior which reduced the school expense of the city by $3,000,000 annually, as stated by the local Board of Education's recent report; a 150-page report of the Bureau's survey of the county governments which formed the beginning and the basis of coöperative effort, now well progressed, for reform in the county system. The report modestly declares, "All that is claimed in this account of things accomplished is that the proposals were usually

originated, and were formulated and recommended by the Bureau, and adopted by the public officials to the extent here shown."

During the past year the Bureau has issued its weekly comment in *Just a Moment* on local governmental events of importance, analyzing and comparing budgets, bond issues and financial items generally, and approving or disapproving proposals brought up in the city council or the county board of supervisors. It has made studies and formal reports on the Erie County Farm, Constitutional Limitation of Real Estate Taxation, the Water Works Pumping Station, Police and Firemen's Pension Funds, and a number of shorter reports on matters of local interest.

The Bureau's stand on these various matters receives very good newspaper publicity, including editorial comment which as a rule is commendatory. The Bureau has retained in large degree the friendly attitude of public officials, however often they fail for one reason or another to comply with its recommendations. It holds very general public respect and approval for its fairness and reliability. While retaining its independence of opinion and action, it coöperates where possible with the local taxpayer groups, whose attitude is much more militant though often less effective than the persuasive methods of the research bureaus.

*

Kansas Chamber of Commerce.—In a small booklet issued during October, the Chamber summarizes its activities during its ten years of existence.

The need for the development of an improved highway system in Kansas furnished the inspiration for the establishment of the State Chamber. Its first job was to bring about the creation of a state system of highways under the jurisdiction of the State Highway Department. To do this required a constitutional amendment. After an intensive campaign led, directed, and financed by the Chamber the amendment was adopted and now the state has a splendid road system.

In 1930 the State Chamber turned its attention to the subject of taxation. One of the tangible results of its work in this field was the enactment in 1931 of a budget law which, it is estimated, has saved taxpayers of the state in excess of $30,000,000. The taxation committee of the Chamber has also formulated recommendations for the reorganization of county government, elimination of townships, and the establishment of the cabinet form of state government and these proposals are a part of the Chamber's program.

A highly significant project in the field of public education was carried on in 1932 and 1933 when the Chamber sponsored "tax study clubs" throughout the state and furnished these clubs with thirteen well prepared lessons. Hundreds of clubs were formed and thousands of Kansans participated in this program.

The idea of a legislative council, an officially authorized body of state legislators charged with the responsibility of planning legislation between sessions, originated with the Kansas Chamber of Commerce in 1932. The following year the state legislature enacted a legislative council bill. In July 1934, the Legislative Council established a research department at the suggestion of the Chamber and the Chamber carried on negotiations which resulted in a grant from the Spelman Fund of $15,000 a year for three years to support the research work of the Council. At the same time the Chamber secured a Spelman Fund grant of $20,000 a year for two years for the work of the State Planning Board.

The 1935 legislative program of the Chamber included the following measures: creation of a state police force; revision of the state inheritance tax, including a lowering of exemption and a raising of rates; provision for scientific assessment of property and standardized accounting, auditing and reporting of city and county government finances; establishment of a school equalization fund; and passage of measures which would permit the reorganization of county government. The legislature enacted a measure providing for state supervision of municipal and county accounting. The Chamber will continue to advocate the adoption of the other measures during the coming year.

Samuel Wilson is the manager of the State Chamber.

*

Bureau of Business and Government Research of the University of Colorado.—During the past twelve months the Bureau has carried on several research assignments in governmental problems.

Data collected by the United States Depart-

ment of Agriculture on tax delinquency in Boulder County were analyzed and a mimeographed report issued.

At the request of the State Superintendent of Public Instruction the director of the Bureau, Mr. Don Sowers, assumed the chairmanship of a small committee to study various aspects of common school education in Colorado. The first report of this committee was entitled "The Elimination of Small School Districts in Colorado." This report showed that the per pupil cost rises precipitately as the attendance falls below twenty pupils and that the smaller schools have the highest per pupil costs. If the 1,078 school districts having less than twenty pupils were eliminated by consolidation, it is estimated that an annual saving of $300,000 could be effected. The Bureau prepared in connection with this study the first map ever produced showing the boundaries of all Colorado school districts.

At the request of the State Association of Presidents of Higher Educational Institutions, the Bureau participated in a study of the unit costs of higher education.

The Bureau continued to serve as a research and service unit for the Colorado Municipal League. In addition to carrying on the usual program of answering special inquiries, providing information on pending legislation affecting cities, operating a field advisory service, arranging for training schools for public officers and employees, editing the bi-monthly magazine *Colorado Municipalities,* and arranging the annual convention of the League, the Bureau inaugurated a confidential bulletin service on municipal purchasing.

Mr. Cramer of the Bureau's staff installed the League's uniform accounting system in two municipalities and made complete audits for four municipalities.

*

Association of Omaha Taxpayers Inc.— This organization was founded in February 1932. For more than three years it has maintained an office headquarters with a full-time manager, Mr. W. L. Pierpoint, with the title of president, and a research and secretarial staff consisting of three or four persons. During this period the Association has been instrumental in securing the adoption of several important reform measures.

In 1933 a county manager enabling act was passed by the state legislature. In 1934 voters of Douglas County, in which Omaha is situated, voted favorably upon the county manager plan to become effective January 1, 1937. Adoption of the council manager plan for the government of Douglas County is an achievement for which the Association and its leading members can take chief credit.

The Association secured the passage of a bill making possible the split payment of taxes which has increased the total of taxes paid and made borrowing on tax anticipation notes by the school districts unnecessary. This has produced annual savings of about $15,000. Another bill supported by the Association increased the share of the gasoline tax distributed to counties by 50 per cent and provided that the counties should allocate gasoline tax money received from the state to incorporated cities and villages, 10 per cent; to bond retirement, 35 per cent; to bridges or to bond retirement, 20 per cent; and to road construction and maintenance, 35 per cent.

A substantial increase in the yield of the personal property tax was obtained by passage of laws requiring the deduction of unpaid personal taxes from the pay of public employees and from bills for supplies and materials and requiring the payment of property taxes on autos and trucks before issuance of license plates. The Association has coöperated with the treasurer and sheriff in the prosecution of a vigorous tax collection campaign. An especial effort has been made to collect personal property taxes which prior to this year have been on a semi-voluntary basis. This campaign has been highly successful.

A law fixing the same date for state, county, and city primary elections was passed which should save approximately $12,000.

City and county finance officers have been urged by the Association to make use of modern accounting and budgeting procedures. Since January 1933 the city finance officer has notified each department every thirty days as to its financial standing. During the past few months the county board has promised to begin to operate all county offices on a budget basis.

Within the past year studies have been made of the pension funds of the police and fire departments. These studies revealed the need for an entirely new and actuarially sound pension system and the city council has promised to act on this matter soon.

Nebraskans have reason to be proud of the

way in which their governments have weathered the depression. The state has no bonded debt and has money on hand to pay its bills. It has been unnecessary to enact a sales tax. In Omaha the city government is operating without a deficit, and the school district and metropolitan district are in a sound financial condition. The total tax levy on property in Omaha has been sharply reduced. Although the financial record of Douglas County is not satisfactory, this situation should be speedily remedied with the inauguration of manager government a year hence.

*

Woonsocket Taxpayers Association.—The August issue of the Association's regular periodical *Public Affairs* contains a chart showing the essential facts with reference to the city's financial operations during the past six years. Since 1930 the net bonded debt has been reduced from $8,751,000 to $6,346,000. Operating expenditures were reduced from $2,729,000 in 1930 to $2,669,000 in 1934 in spite of the fact that the expense to the city of poor and unemployment relief increased from $53,000 in 1930 to $300,000 in 1934.

Milton C. Chapin continues to serve as the Association's executive director.

Detroit Bureau of Governmental Research.—The Bureau has completed arrangements to effect a close coöperative relationship with the city-supported institution for higher education—Wayne University. The University has formed a school of public affairs as a coördinating agency designed to emphasize the courses available to those who seek careers in the public service or desire a background which will make them more intelligent voters and citizens. Dr. Lent D. Upson, director of the Bureau, has been appointed director of the school of public affairs, while Mr. J. M. Leonard of the Bureau's staff will serve as supervisor of student research. The Bureau will continue to be an independent citizen research agency but a portion of the time of its staff members will be devoted to teaching and to the direction of graduate students carrying on research work in governmental, economic, and social problems of the community. The Bureau will soon open an office adjacent to the Wayne University campus.

A bulletin describing this new school and outlining the courses which have been included in its curriculum is available on request to either the Detroit Bureau or the University.

PROBABLE EFFECTS OF TAX LIMITATION IN ILLINOIS

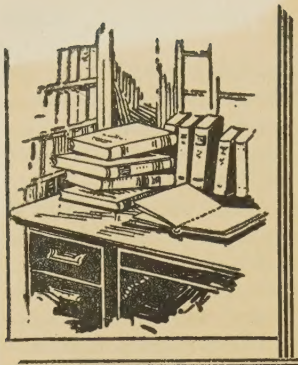
(Continued from Page 625)

cannot render the services which the taxpayers require of them? Instead of improving fiscal practices, legislation of this type makes them worse. Under such circumstances, it is difficult to see how tax-rate-limitation legislation can operate to the advantage of property owners generally.

The experience of other states experimenting with tax limitation schemes, indicates first, that tax limitation laws have not limited property taxes; secondly, that they have not accomplished the reformation of the state-local tax systems; thirdly, that they have neither produced economy in government nor a constructive avenue of approach to that goal; and lastly, that these schemes have so frequently curtailed governmental service and produced fiscal chaos that the plan has been permanently discredited.

The conclusion is inescapable that the tax limitation plan is an unintelligent and ineffective method of accomplishing desirable results. It is negative and selfish, rather than constructive and in the social interest. The surprising thing is that non-property owners have stood by and allowed tax limitation advocates so easily to interfere with public services and public finances. What a pity so much energy could not have been devoted to an intelligent effort to improve state and local fiscal systems!

Editor's Note. The article above is taken from Chapter III of Constitutional Tax Rate Limitation for Illinois, Special Report No. 2, Prepared by the Illinois Tax Commission.



RECENT BOOKS REVIEWED

EDITED BY GENEVA SEYBOLD

Home Rule for Metropolitan Chicago. By Albert Lepawsky. Chicago, University of Chicago Press. 210 pp. $2.

So much has been written concerning the general problem of municipal self-government and the particular problem of the Chicago metropolitan area that the casual student of the subject may be tempted when he sees the title of this book to say to himself, "Just another book on the Chicago situation. Guess I can afford to pass that up."

If he does so, he will be making a serious mistake. Dr. Lepawsky has not only made a realistic rather than legalistic approach to his problem, and thus provided a very definite contribution to the understanding of the conception of "home rule" as related to Chicago, but he has turned out the most readable and vivid account of the problem and its possible solutions that has been done. Here is no academic treatise with a bookish odor of the study and the cloister. To the author Chicago's home rule is a concrete matter, to be understood only in terms of gangsters and garbage, peanut-vending and police protection, elevated railways, and bad beefsteak. Not a citizen in Chicago any day in the year but is seriously affected by the fact that, to use the author's terse phrase, "legally, Chicago is an infant." To make that clear requires much research, hard thinking, and sharp writing. Lepawsky has done that; he has done more, for the book has that rare spirit that leaves the reader with the feeling that he must go out and do something about all this.

In other words, it's a good book!

H. P. J.

Government in Business. By Stuart Chase. New York, the Macmillan Company, 1935. 296 pp. $2.00.

Stuart Chase is an adept master in the marshalling of facts. Row after row they march in parade, an array that cannot fail to impress the reader, whether or not he agrees with the author's theories.

In his latest book Mr. Chase has turned his attention to the way the government has gradually penetrated the domain of private enterprise. Those who shrieked when the first camel's nose, government operation of the Panama Canal in 1912, was poked under the tent are now aghast at a tent filled with camels. The list of new governmental ownerships and controls fills several pages.

Mr. Chase is not one of the shriekers. He doesn't mind regulation or regimentation. If collectivism cares for him and his neighbors better than individualism, he is for collectivism. He challenges the theory that government should do only the jobs that no one else wants to do, such as public education and street cleaning, jobs which private business is abandoning because losses exceed profits, like farming, or jobs which private business is bungling, like the conservation of lumber and petroleum.

The government, he says "mops up after the risk-takers have had their excitement. The mopping up after the excitement of the big bull market and the big bank credit boom has been a very extensive and expensive public enterprise. The question remains whether the community can indefinitely stand such a bill for excitement with [illegible]equent disruption to

its service or supply, or whether public business in its pedestrian, matter-of-fact way, may not have to step in and guarantee the service."

Mr. Chase would apply the following yardstick to every economic activity, private and public: "Is this business consistent with general economic security, or is it not?"

"I think we should admit freely with no quibbling or qualifications, that the function of public business today is to do whatever must be done to assure the healthy survival of the whole community. . . . So long as private enterprise assures community survival, public business need not advance except in the peripheries. But when survival is threatened, when old margins of safety shrink and disappear, the community must act."

A Purchasing Manual for Texas Cities. By Lyndon E. Abbott. Austin, the University of Texas, 1935, 120 pp. Apply to University Publications, University of Texas.

Full-time purchasing agents in the larger cities are no luxuries but a necessity in caring for an everyday, important function of government, according to this study. In El Paso the cost of the purchasing department amounted to only 2.2 per cent of the total amount of purchase orders handled in 1934 with the percentage decreasing in the case of other large Texas cities to Fort Worth where the departmental cost at present is estimated at 1 per cent of the orders. In the smaller cities large economies have been effected by making purchasing the part-time function of one official.

The city wishing to install centralized purchasing finds a practical guide in this manual which tells step by step how to organize and operate a purchasing department. Each essential principle is illustrated by a description of the practice in Texas cities. More than fifty municipalities are included in the survey.

*

Legal Aid Bureaus. Compiled by John S. Bradway. Chicago, Public Administration Service. 1935. 80 pp. $1.

Since the formation of the New York Legal Aid Society in 1876, established primarily for assisting immigrants, others have been organized until in 1933 there were eighty-nine in various parts of the country. For many years the legal aid bureau was regarded as a welfare agency distributing charity in the form

gs become understandable to the layman de-
rves commendation for his courage and skill.
seph D. McGoldrick, former comptroller of
w York City, in a foreword to this pam-
let says that "there is no other single place
which a citizen or taxpayer can turn to
the whole picture so clearly and compactly
ented."

here are sections on budget expenditures,
city's revenues, its debts, the rapid transit
blem, special financial problems created by
depression and the outlook for the future.

*

Westward to the East. By George Mon-
n Harris. Brussels, International Union of
cal Authorities, 1935. 254 pp.

It is always interesting to know what a
visitor from another land thinks of us. George

Mr. Brauway, who is secretary [illegible] National Association of Legal Aid Organizations which has been in existence for more than twenty years and has strengthened local agencies through clarifying objectives and developing standards and uniformity in records, has designed this manual with two groups in view —those who are thinking of establishing a legal aid society and for the administrators of existing legal aid bureaus. In compact form he has succeeded in presenting the pooled experience of legal aid bureaus during the last quarter of a century.

*

Property Valuations and Taxes. By Mabel L. Walker. New York, Tax Policy League, 1935. 18 pp. Twenty-five cents.

The assessed valuation of real, personal, and other property in the states and the United States is presented in tabular form for the years 1912, 1922, and 1931 in this bulletin. The assessed valuation translated into terms of legal and estimated actual full value assessment are also given. A section of the report describes how assessments and collections are made in each state.

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Financing New York City. By William Whyte. Philadelphia, American Academy of Political and Social Science, 1935. 70 pp. Fifty cents.

A student who dares venture into the astounding labyrinths of the finances of New York City and from his explorations prepare a chart upon which the intricate wind-